



POTASH CORPORATION *of* SASKATCHEWAN INC.



P C S A T



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G L A N C E

Formed PCS Phosphate with the purchase of Texasgulf and the phosphate business of Occidental Chemicals

Purchased the Potash Company of Canada property in New Brunswick and shares in Israel Chemicals

1994

1995

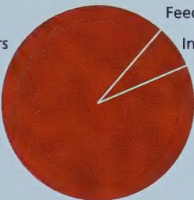
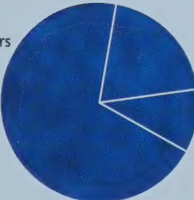
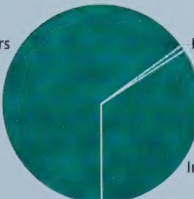
1996

1997

1998

Acquired Arcadian Corporation and formed PCS Nitrogen

PCS PRODUCTS

Nutrient*	Production Mode	Base Product	Products	Primary End Uses
POTASH	Mined	Potassium chloride	Fertilizer Industrial Feed supplements	Agriculture TV/computer screens, water softeners, soaps, perfumes, de-icers Livestock and poultry
				
PHOSPHATE	Mined and Manufactured	Phosphate rock → Phosphoric acid	MGA DAP SPA, LoMag, Poly-N Feed supplements Industrial acid	Feedstock for other phosphate products Agriculture Liquid fertilizers, feed, industrial products Livestock and poultry Soft drinks, food products, industrial detergents, metal treating, water treatment
				
NITROGEN	Manufactured	Ammonia	Fertilizer, Feedstock Urea Nitric acid Ammonium nitrate Nitrogen solutions	Agriculture, industrial, other nitrogen products Agriculture, pharmaceuticals, plastics, resins, adhesives, dyes, pool chemicals, humulin for diabetics Feed supplements for livestock Carpets, photography, batteries, lacquers and paints, tires, ammonium nitrate Agriculture, explosives for mining, construction and road work Agriculture
				

* Sales Volumes



PROFILE

Potash Corporation of Saskatchewan Inc. (PCS), the world's largest fertilizer enterprise producing the three primary plant nutrients, provides quality products to farmers and industry worldwide.

The world's largest potash (K) company by capacity, PCS has vast excess capacity to draw upon as global demand grows. The third largest phosphate (P) company in the world, it produces the most diversified product line. It is the world's second largest nitrogen (N) company with a wide range of upgraded products.

PCS Sales, its subsidiary, sells all PCS products domestically and handles some exports, as well as potash exports for a large New Mexico producer. PCS is a leading member of fertilizer export agencies and owns a full-range retail company, Florida Favorite Fertilizer.

The 54.2 million PCS shares trade on the Toronto, Montreal and New York stock exchanges under the symbol POT.



STRATEGY

PCS has followed an operating strategy of pursuing products and markets with the best margins and an acquisition strategy aimed at building on its strengths. It has reinforced its solid potash base with acquisitions that expand its export prospects into key markets. It has diversified into phosphates and nitrogen with acquisitions that fit its strategy of building a balanced, market-driven company best able to take advantage of distribution logistics and economies of scale.

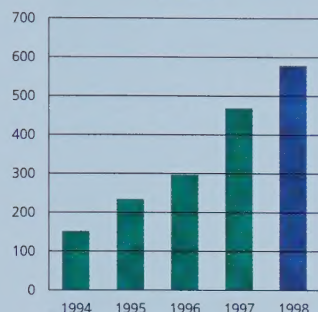
Recognizing the different circumstances of each of its nutrients, PCS has leveraged them for maximum profits. In potash, it has grown earnings by matching production to demand. In phosphates and nitrogen, it has utilized its diversified product range to maximize the production of those products with a market premium. In both, it uses its upgraded product line and multiple product locations to develop non-fertilizer business in which the key issues are quality and security of supply.



Cover: PCS potash, phosphate and nitrogen help farmers to produce better food for 6 billion people and industry to make better products for the world. Its three nutrients and varied products within each nutrient give the Company balance and diversity.

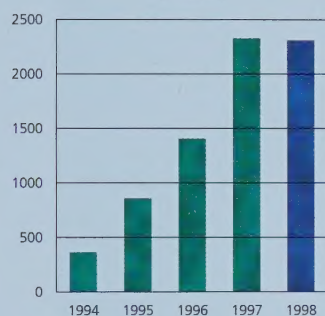
H I G H L I G H T S

CASH FLOW FROM OPERATIONS (\$ Millions)



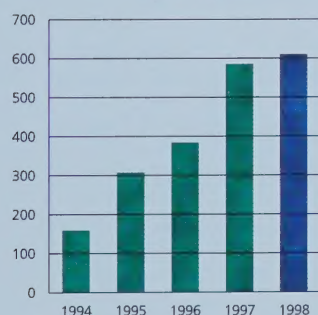
Record cash flow was used to pay down \$375 million in debt.

NET SALES (\$ Millions)



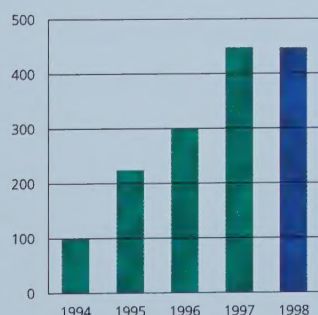
Net sales revenue was almost flat with the 1997 record and provided record gross margin.

GROSS MARGIN (\$ Millions)



Fertilizer provided 68 percent of gross margin and non-fertilizer products 32 percent, showing the value of PCS diversification.

OPERATING INCOME (\$ Millions)



Even after paying nearly \$10 million more in provincial mining taxes, PCS operating income was flat with the 1997 record.

Financial Summary

(US\$ millions except where specified)

	1998	1997
Net Sales	2,307.8	2,325.9
Costs and Expenses	1,861.7	1,878.3
Operating Income	446.1	447.6
EBITDA	636.9	617.6
Net Income	261.0	297.1
Per Common Share (Actual Dollars)	4.82	5.68
Dividends Per Share (Actual Dollars CDN)	1.44	1.44
Cash Flow from Operations	578.0	467.8
Long-Term Debt Obligations	933.3	1,130.0
Shareholders' Equity	2,453.8	2,227.9
Return on Shareholders' Equity	11%	13%

Potash Operating Summary

(in thousands of KCl tonnes)

Total Potash Production	6,995	6,483
North American Sales	2,702	3,017
Offshore Sales	3,581	3,623
Sales to Third Parties	6,283	6,640
Sales to Florida Favorite Fertilizer	126	129
Total Sales Tonnage	6,409	6,769

Phosphate Operating Summary

(in thousands of tonnes)

Total Phosphoric Acid Production (P ₂ O ₅ tonnes)	2,363	2,282
Sales (product tonnes)		
Rock	9	29
Solids	1,962	1,924
Liquids	1,684	1,494
Animal Feed	747	752
Industrial Products	225	235
Total Sales Tonnage	4,627	4,434

Total P₂O₅ production and sales reflect the acquisition of the Geismar operation on March 6, 1997.

Nitrogen Operating Summary

(in thousands of tonnes)

Total Nitrogen Production (N tonnes)	3,121	2,349
Sales (product tonnes)		
Manufactured Product		
Ammonia	1,496	1,061
Urea	1,425	1,226
Nitrogen Solutions	2,164	1,719
Other	1,040	894
Purchased Product	554	1,138
Total Sales Tonnage	6,679	6,038

The nitrogen production and manufacturing data for 1997 cover only a partial year, since the properties were acquired on March 6, 1997.



C. E. Childers, Chairman and Chief Executive Officer

DEAR SHAREHOLDERS:

Your company continued to show strength in 1998 in the important financial area of cash flow, with operating activities providing \$578 million. Excluding changes in working capital, the amount was \$556 million. This was an improvement over 1997 and our best year ever. Net sales of \$2,308 million were within 1 percent of our record year in 1997, but gross margin of \$609 million was up by 4 percent. Higher provincial mining taxes resulted in operating income for 1998 approximately the same as in 1997. Income before income taxes was up over 1997 to a new high of \$378 million. However, an increase of 70 percent in income taxes recorded, from \$69 million in 1997 to \$117 million in 1998, resulted in net income of \$261 million, compared to \$297 million in the previous year. In what otherwise was a better year financially, \$58 million more in taxes caused net income to drop by \$36 million from 1997, our best year ever on the basis of net income and net income per share.

Since 84 percent of our taxes were deferred, we were able to provide record cash flows. We used that cash to pay off a net \$240 million of debt, purchase a potash property in New Brunswick, Canada, buy shares in Israel Chemicals Ltd., and make improvements at our operations. At the end of the year, our balance sheet was stronger and we had a debt to capital ratio of 29.5 percent.

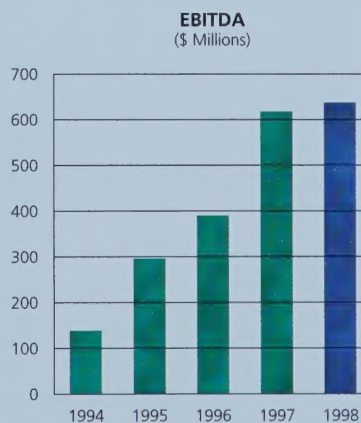
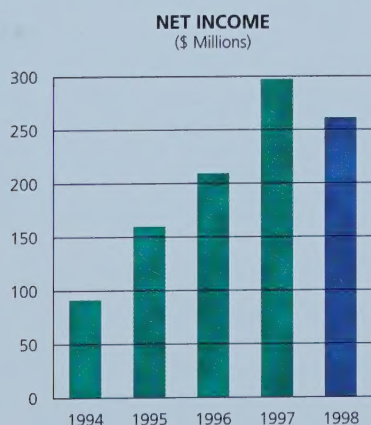
Potash, our first business and the foundation of the Corporation, had another outstanding year. Although sales were down in the fourth quarter compared to the very strong fourth quarter of 1997, total tonnes sold in the year were only 5 percent below the record tonnage sold the year before. Much stronger prices, however, resulted in an 8-percent increase in sales revenue and a 23-percent increase in gross margin. Even though we paid an additional \$10 million in Saskatchewan Provincial Mining Tax, our potash subsidiary earned \$238 million in operating earnings, an increase of \$46 million or 24 percent over 1997.

We purchased Potash Company of Canada Limited (Potacan) from its German and French owners and are using the mill, renamed PCS Cassidy Lake, to upgrade standard grade potash produced in Saskatchewan to granular grade product for markets in Eastern Canada and the United States.

In December, we purchased 9 percent of the shares of Israel Chemicals Ltd. (ICL) from the Government of Israel in an offering that sold off the remaining government ownership in that company. The most important asset of ICL is its ownership in Dead Sea Works, the fifth largest potash exporter in the world.

PCS Phosphate, our phosphate subsidiary, also had another good year, with fertilizer products leading the way. The subsidiary had an increase in gross margin of 14 percent, to \$211 million. Fertilizer sales revenue was up 9 percent and gross margin on fertilizer sales was up 49 percent. Phosphate sold as feed supplements and as industrial acid was down from last year, but continued to represent the highest margins.

On a nutrient basis, including the phosphate products produced in our nitrogen subsidiary, fertilizer products represented 58 percent of total phosphate gross margin, with feed supplements and purified acid representing 27 percent and 15 percent respectively. Liquid phosphate fertilizers are gaining in popularity as they are tied to the low-till farming methods being utilized more each year by American farmers. Our North American sales of liquids were up 18 percent.



Net income was below the 1997 record but, at \$637 million, PCS earnings before interest, taxes, depreciation and amortization reached a new high.

PCS Nitrogen did not fare as well because prices for nitrogen products continued to fall as the year progressed. Our nitrogen subsidiary had an operating income of \$61 million in 1998, a drop of 51 percent from the \$126 million in 1997. We have taken several measures to combat the problem, including closing down our Wilmington, North Carolina operations. In August we dedicated our new ammonia plant in Trinidad. It is the fourth plant in our Trinidad complex and is rated as the most efficient in the world. This plant is helping to lower our cost of production, increase our volumes of sales and replace some purchased ammonia.

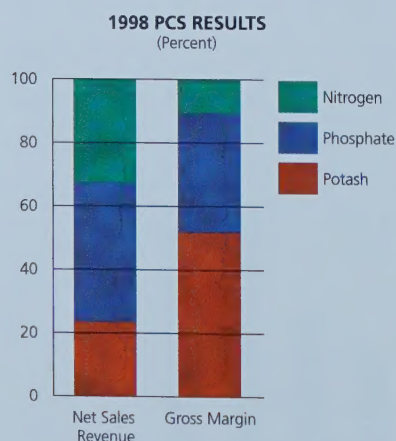
In addition, we are making efforts to move more nitrogen products to industrial markets. W. R. Grace built a new calcium nitrite plant at the PCS complex in Augusta, Georgia. We are providing it with raw materials that otherwise would have gone to fertilizer products. We are completing construction of a new 396,000 tonnes per annum (TPA) nitric acid plant at our Geismar, Louisiana complex to feed new industrial plants built at the nearby BASF and Rubicon facilities. The new nitric acid plant will consume 100,000 TPA of ammonia that is presently going into the fertilizer market.

We just recently signed an agreement with Melamine Chemicals which, when concluded, will see us supply up to 113,000 TPA of urea liquor to a new plant that will be connected to our Memphis, Tennessee operations. Melamine will begin construction of this facility in 1999.

In total, excluding selling and corporate costs, the potash subsidiary supplied 47 percent of our operating income, PCS Phosphate supplied 41 percent and PCS Nitrogen supplied 12 percent.

Fertilizer products made up 68 percent of sales revenue and 68 percent of gross margin, while our non-fertilizer products were 32 percent of sales revenue and gross margin.

Revenue by nutrient was split between the offshore market and the North American market as follows: potash 58/42 percent; phosphate 29/71 percent; nitrogen 7/93 percent. In total, 29 percent of our 1998 sales revenue came from offshore markets and 71 percent from North American markets, virtually identical to 1997.



Although results for the three nutrients will vary over time, potash gross margin was highest in 1998 as a percentage of sales.

In July of 1998, several changes in our management organization were made in an effort to provide continuity and strength in future leadership. William Doyle was promoted to President and Chief Operating Officer responsible for Potash, Phosphate and Nitrogen subsidiaries. Gary Carlson replaced Mr. Doyle as President of PCS Sales. James Dietz was promoted to replace Mr. Carlson as President of PCS Nitrogen. These executives, along with Tom Wright, President, PCS Phosphate, and Garth Moore, President,

PCS Potash, form the nucleus of our operations and sales team. There were no changes in the ranks of Senior Vice Presidents in the corporate office.

Although we did make slight alterations to our operating assets during the year, our recent effort to negotiate the purchase of a controlling interest in The Israel Corporation, the holding company that controls Israel Chemicals Ltd., was unsuccessful. However, your board and your management will continue to identify potential opportunities that are financially attractive and accretive.

Yours truly,

C. E. Childers

C. E. Childers
Chairman and Chief Executive Officer
March 2, 1999



Its varied production within each of its nutrients gives PCS strength and balance.

Through balanced fertilization, productive and efficient North American farmers achieve their high-quality crops.

WHAT IS POTASH? The major source of potassium. In plants, potassium raises yields and food value, builds disease resistance and improves shipping, handling and storage qualities; in animals, it helps growth, maintenance and milk production. **SOURCE?** Potash is mined from ore deep underground or extracted from brine, and milled on the surface. Production costs are affected by ore thickness, consistency and continuity; ore depth, geological conditions and K_2O grade; mill recovery achievable, operational capacity, degree of automation. **WORLD TRADE?** There are a limited number of world suppliers but more than 150 countries use it. About three-quarters of world production moves across borders. Developing nations have little or no supply and account for nearly half of world consumption.

PCS STRENGTHS: Excess capacity; leading global player; capable of producing more potash than other world companies at lower cost.

Lanigan, the largest of the PCS potash properties, set both productivity and annual production records in 1998.



PRODUCING FOR THE WORLD

PCS produces potash from seven mines in Canada, six of which it owns and operates, and one wholly-owned mine in the United States. With 24 percent of world capacity and an estimated 57 percent of excess capacity, it can increase production as markets grow and further reduce costs per tonne. Reserves that will last more than a century ensure its long-term leadership in potash. A primary supplier to developing nations where demand for potash keeps growing, it makes more than half its annual sales offshore.

To suit its different markets, PCS produces potash fertilizer in two dozen grades. Its agricultural product is guaranteed to have at least 60 percent K_2O (95 percent KCl).

RECORD POTASH PRODUCTION

With a second consecutive year of strong world demand for potash, PCS set a second consecutive record in 1998 for total production. Using 57 percent of its capacity and with eight fewer shutdown weeks than in 1997, the Company produced 6.995 million tonnes. New Brunswick and Moab also produced 0.897 million tonnes of sodium chloride (salt) during the year, used for de-icing winter roads and making various products. Moab's salt production broke a four-year-old record.

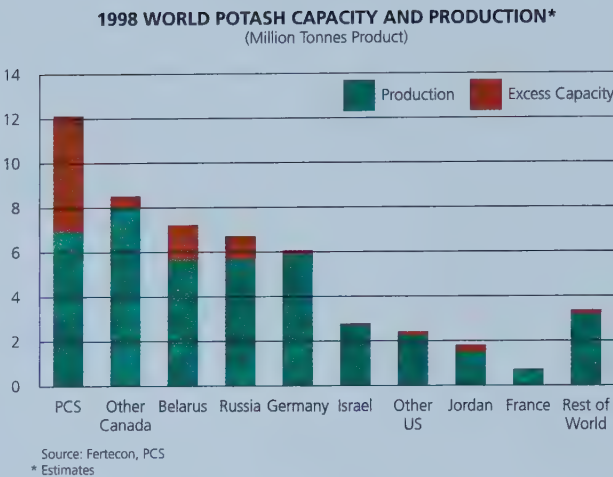
Productivity records were set at Lanigan, Rocanville and New Brunswick, and annual production records at Lanigan, Rocanville, Cory and New Brunswick.



On March 3, 1998, PCS purchased the Potacan property in New Brunswick, a flooded mine and a mill. Renamed PCS Cassidy Lake, it has an annual milling capacity of 1.3 million tonnes and a compaction capacity of 1.0 million tonnes of granular product. A rail car unloading facility was installed there to receive standard potash from Rocanville for upgrading into granular product. Since acquisition, 0.283 million tonnes have been compacted at Cassidy Lake, which has 30 employees.

In April 1998, a small brine inflow was discovered at the New Brunswick division, but production was maintained without interruption or danger as attempts to locate the source of the inflow continued.

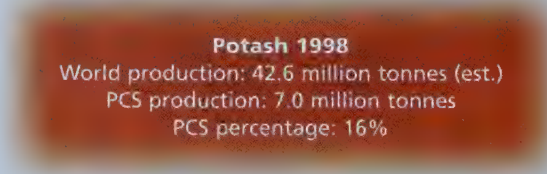
Technological advancements in 1998 included developments in computer applications for on-site analysis of three-dimensional seismic survey data. PCS personnel researched and developed a fully-automated underground microseismic



World demand remained strong and PCS drew on its excess capacity, surpassing its 1997 production record by 8 percent.

event location and analysis system. A flotation column 3.3 meters in diameter was designed, fabricated and commissioned at Rocanville. Research projects included the evaluation of thickened tailing technologies through a combination of process, pipeline and waste stream deposition and weathering studies. The Company continues to participate in research groups that support studies relevant to the fertilizer business, such as product quality, minerals separations, fine particle science and environmental technology.

PCS reserves at Esterhazy division are mined by International Minerals and Chemical (Canada) Limited Partnership (IMC) under a long-term mining and processing agreement effective through 2026. PCS has the option of terminating this agreement every five years; the next opportunity is December 31, 2001. Under the agreement, the Company can take between 0.450 and 0.950 million tonnes of product a year from IMC. For the calendar year 1999, it has increased its allocation to 0.726 million tonnes.



1998 Production (million tonnes KCl)				
	Annual Capacity	1998 Production	1997 Production	Mine Site Employees (active)
Lanigan SK	3.828	1.656	1.600	327
Rocanville SK	2.295	1.882	1.692	319
Allan SK	1.885	1.142	1.011	279
Cory SK	1.361	.676	.626	151
Patience Lake SK	1.033	.254	.277	72
Esterhazy SK ¹	.951	.543	.498	2
New Brunswick NB	.785	.783	.715	334
Moab UT	.062	.059	.064	49
Total	12.200	6.995	6.483	1,533

1 Production at Esterhazy is mined from PCS reserves by International Minerals and Chemical (Canada) Limited Partnership under a long-term agreement.

WHAT IS PHOSPHORUS? The energizer of plant production, crucial to photosynthesis and reproduction and helps other yield-developing processes. It assists animals' general nutrition and normal body growth, maintenance and repair. **SOURCE?** Underground phosphate ore deposits yield phosphate rock from which phosphoric acid, feedstock for other products, is made. Ore thickness, consistency and continuity, depth, geological conditions and concentration ratio (tonnes of material removed per tonne of phosphate rock) affect production costs. **WORLD TRADE?** About 60 countries produce phosphate products; about one-third of world production is traded. More than 150 countries use phosphate fertilizers; about two-thirds of consumption is in developing nations.



PCS STRENGTHS: Diversified and low-cost production; long-term rock reserves.

The excellent PCS rock reserves in North Carolina and Florida will last about 50 years operating at full capacity



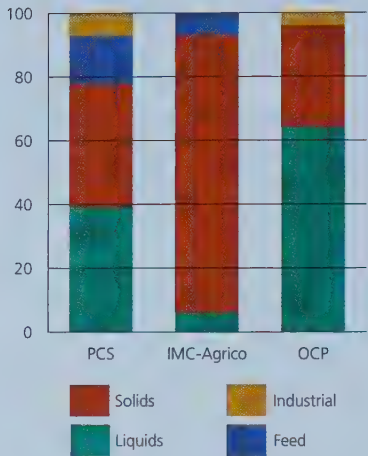
QUALITY AND DIVERSIFICATION

PCS produces a wealth of products at its three phosphate facilities in the US. From its high-quality phosphoric acid, it makes solid and liquid fertilizers, industrial phosphoric acid and feed supplements for livestock and poultry. The most flexible of the major producers, it can switch its production among these products to maximize its margins.

Outside experts have recognized PCS Aurora in North Carolina as the lowest-cost world producer of phosphoric acid, and White Springs in Florida is also a leading low-cost producer.

These two facilities combine with the phosphate plant that is part of the Company's nitrogen operations at Geismar, Louisiana to make PCS one of the world's

PHOSPHATE SALES DISTRIBUTION
(Basis Percent P₂O₅)



Source: Fertecon, PCS

With the most varied line in the industry, PCS can shift its feedstock to the products most in demand by the markets, optimizing margins.

lowest-cost P₂O₅ producers. Superphosphoric acid and phosphate solutions are also produced at Geismar, making PCS the world's leading supplier of superphosphoric acid, a fertilizer intermediate geared to the increasingly popular conservation tillage systems.

Aurora blends its byproduct gypsum and clays into a unique neutralized soil for land reclamation so it needs no clay pond impoundment areas. Convenience to tidewater at both Aurora and White Springs benefits transportation logistics.

DIVERSITY IN PHOSPHATE PRODUCTION GIVES STRENGTH

In 1998, PCS produced 2.363 million P₂O₅ tonnes of phosphoric acid. This total, 4 percent more than

PCS is the world's largest manufacturer of phosphate feed supplements for livestock and poultry, which help proper growth, maintenance and reproduction, and in cows, good milk production.



1997 production, partially reflects inclusion of a full year of production at Geismar. Aurora produced phosphate rock at 79 percent of capacity and P_2O_5 at 99 percent. White Springs, whose rock comes from its Swift Creek mine and is processed at its Suwannee River and Swift Creek facilities, produced rock at 94 percent of capacity and P_2O_5 at 87 percent. Geismar, which uses imported rock, produced P_2O_5 at 106 percent of capacity.

White Springs reduced its costs of producing DAP by 2 percent. It had record production of green SPA. A major change in the LoMag process, fully implemented in 1998, enabled production of this type

Phosphoric Acid 1998
World production: 27.6 million P_2O_5 tonnes (est.)
PCS production: 2.4 million P_2O_5 tonnes
PCS percentage: 9%

of SPA to increase by 16 percent over 1997 and cut costs of production per P_2O_5 tonne. The Swift Creek plant continued to operate

according to its original design, as a single product producer of black SPA, and raised its output 2 percent above 1997. Again it was one of the most cost-effective plants anywhere.

Record production volumes at Aurora helped to reduce unit costs at this already low-cost plant, despite challenging mining conditions and lower ore availability in the area of its deposit being mined. Annual production records were set for sulphuric acid, phosphoric acid, green phosphoric acid, 54 percent

1998 Rock and Acid Production

	Annual Capacity	Phosphate Rock		Annual Capacity	Phosphoric Acid		Mine Site Employees
		1998 Production (million tonnes)	1997 Production		1998 Production (million tonnes P_2O_5)	1997 Production	
Aurora NC	6.0	4.738	4.806	1.202	1.193	1.168	1,177
White Springs FL	3.6	3.393	3.585	1.093	.956	.962	1,113
Geismar LA	—	—	—	.202	.214	.152 ¹	45
Total	9.6	8.131	8.391	2.497	2.363	2.282	2,335

1 After acquisition, March 6, 1997.



1998 Phosphate Production

(million tonnes product)

	Aurora			White Springs			Geismar		
	Annual Capacity	1998 Production	1997 Production	Annual Capacity	1998 Production	1997 Production	Annual Capacity	1998 Production	1997 ¹ Production
Liquids									
MGA ²	1.835	1.789	1.753	1.908	1.456	1.474	.337	.357	.252
SPA	.676	.437	.348	1.138	.822	.788	.196	.180	.121
Solids									
DAP	1.247	1.225	1.215	.710	.700	.724	—	—	—

¹ After acquisition, March 6, 1997.

² A substantial portion is consumed internally in the production of downstream products. The balance is exported to phosphate fertilizer producers and sold domestically to dealers that custom-mix liquid fertilizer.

acid, LoMag, POLY 11 and DAP. Productivity was increased by improvements in production of amber acid and of the feed acid for industrial acid. Ammonia usage was cut through improvements in recovery from the DAP plants.

Geismar set an annual P₂O₅ production record of 0.214 million tonnes, benefiting from a new reliability team that addresses equipment problems and proposes corrective actions.

Technological advances at Aurora included development of a new flotation scheme for two circuits in the mill to improve recovery, and implementation of low phosphorus technology in the cooling towers to reduce discharge to the outfalls.

At White Springs, mining production capability and efficiency were improved. A second rod mill was added to grind rejected “pebble” to product of usable size, and a telemetry system was installed on one dragline pumping circuit to pump a denser slurry and cut time lags in start-up and shutdown. Global Positioning System equipment increased productivity in surveying and prospecting of mineral reserves.

FEED PHOSPHATE PRODUCTION

PCS is the world’s largest manufacturer of phosphate feed supplements for livestock and poultry. While production was down by 3 percent in 1998, it

still represented an estimated 47 percent of total US feed phosphate production.

Weeping Water, Kinston, Marseilles, Davenport and one White Springs facility produced Dical and Monocal, while DFP was produced at Saltville and White Springs. High inventories constrained total production in 1998, but plant improvements resulted in new daily production records at Weeping Water, Marseilles and Davenport. Through efficiencies in gas consumption and use of more of its own rock, costs of producing DFP at White Springs fell by 4 percent.

A new program of annual quality audits at each facility was implemented in 1998 to maintain the reputation of PCS feed products for high quality. A potash storage dome being constructed at Marseilles will reduce costs of distributing potash, and is one of many synergies achieved among the Company’s operating units. Acid tanks being built at Marseilles and Kinston will provide a more constant flow of acid to the plants and free rail cars for other uses.

INDUSTRIAL ACID

The purified acid plant at Aurora produced 0.130 million P₂O₅ tonnes of purified acid for industrial use. This was 96 percent of its rated capacity of 0.135 million tonnes.

1998 Feed Phosphate Production

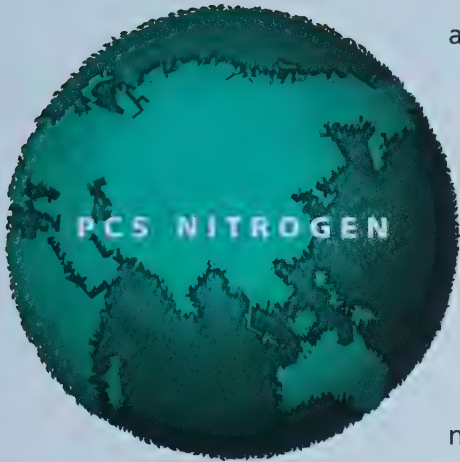
(million tonnes)

	Annual Capacity	1998 Production	1997 Production	Employees (active)
Davenport IA	.280	.094	.080	27
Marseilles IL	.278	.175	.187	37
White Springs FL (D/M)	.218	.096	.108	20
Weeping Water NE	.209	.154	.161	42
Kinston NC	.141	.059	.070	27
White Springs FL (DFP)	.100	.086	.079	41
Saltville VA	.078	.068	.072	50
Total	1.304	.732	.757	244

WHAT IS NITROGEN? A requirement for every living cell. It is part of the genetic blueprints RNA and DNA, and needed by animals for proper nutrition and maturation. The fundamental building block of plant proteins, it improves yield and quality. **SOURCE?** Ammonia synthesized from natural gas, steam and air is the feedstock for all nitrogen products and the most concentrated nitrogen fertilizer. Urea is the major fertilizer source of nitrogen. Solid fertilizer ammonium nitrate is made from nitric acid. Liquid forms of urea and ammonium nitrate are combined into nitrogen solutions. **WORLD TRADE?** More than 75 countries produce ammonia and most use their production internally, so cross-border trade is limited. North America is a net importer of nitrogen, unlike potash and phosphate with their excess supply and large exports.

PCS STRENGTHS: Large percentage of industrial sales; long-term natural gas contracts in Trinidad.

Urea is the world's most popular nitrogen fertilizer and, among other uses, is a raw input for the insulin product humulin used by eight million diabetics around the world.



A WEALTH OF UPGRADED PRODUCTS

PCS, the most diversified nitrogen producer, makes upgraded products for agriculture and industry at six plants in the United States and a large complex in Trinidad. It produces all the nitrogen fertilizers and its industrial products are used in the manufacture of essential and familiar products for home, car, building and pharmaceuticals. PCS micro prilled urea is used as a nitrogen-based supplement that helps build protein in beef and dairy cattle.

Adequate supplies of natural gas are key to the competitive production of nitrogen products. Natural gas can represent up to half of the operating budget of PCS Nitrogen. The Company has the ability to produce 43 percent of its ammonia in Trinidad, where the price of natural gas is indexed to ammonia prices in the Caribbean. For its US production, it purchases half of its natural gas at fixed prices and half at market prices. This breakdown has been adopted as the ongoing PCS strategy.

Ammonia 1998

World production: 126.9 million tonnes (est.)
PCS production: 3.8 million tonnes
PCS percentage: 3%

Much of the ammonia produced in Trinidad goes to Florida DAP producers. Nearly half the Company's US production goes to

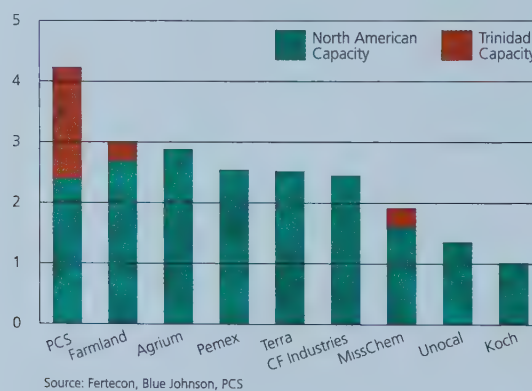
industrial customers as ammonia or upgraded products. It can use over a third of the remaining ammonia for its own DAP production. The rest of its nitrogen business is agricultural and benefits from its strategic plant locations in the US Midwest, close to customers and profiting from a positive price differential with the Gulf.

VALUE-ADDED PRODUCTS FOR AGRICULTURE AND INDUSTRY

PCS produced 3.806 million tonnes of ammonia in 1998, 63 percent from its plants in the United States and 37 percent in Trinidad. That ammonia was the raw material used in its value-added products.

The ammonia plant under construction in Trinidad when PCS acquired the former Arcadian Corporation, now PCS Nitrogen, began operating in May 1998,

WESTERN HEMISPHERE MAJOR AMMONIA PRODUCERS
(Million Tonnes Product)



With the new PCS ammonia plant in Trinidad now operating, the complex there has 43 percent of Company capacity.

1998 Production

(million tonnes)

	Annual Capacity	Ammonia ¹		Annual Capacity	Nitric Acid ^{1,2}	
		1998 Production	1997* Production		1998 Production	1997* Production
Trinidad	1.827	1.399	.923	—	—	—
Augusta GA	.622	.666	.549	.474	.511	.409
Lima OH	.525	.481	.388	.097	.103	.075
Geismar LA	.476	.473	.404	.560	.517	.441
Memphis TN	.357	.373	.275	—	—	—
Clinton IA	.238	.226	.182	.126	.122	.105
LaPlatte NE	.182	.188	.143	.178	.158	.125
Wilmington NC ³	—	—	—	.161	.025	.087
Total	4.227	3.806	2.864	1.596	1.436	1.242

* After acquisition, March 6, 1997.

1 A substantial portion of ammonia and nitric acid is upgraded to value-added products.

2 HNO₃ tonnes

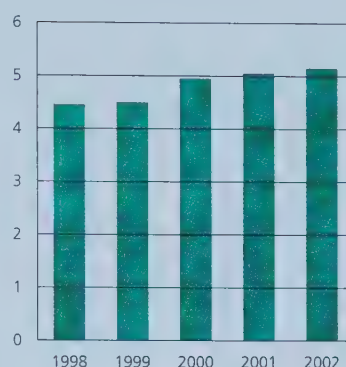
3 Ceased production June 1998; remaining staff dealing with safety and plant remediation.

the fourth in the Company's complex there. One of the world's largest and most advanced facilities, it features a gas-efficient Kellogg Advanced Ammonia Process (KAAP) reactor.

Because of the difficult nitrogen solutions market, PCS ceased production at its Wilmington plant, the only nitrogen facility not producing its own ammonia feedstock. The lower-cost Augusta plant took over the supply of nitric acid for the Company's contract with W.R. Grace, which built a calcium nitrite plant adjacent to Augusta.

Annual production records were set at Augusta for all products in 1998. Record annual ammonia production was also achieved by Trinidad, Geismar and Memphis; the latter also set a record for the year's urea production. Lima had record production of nitric acid and LaPlatte of nitrogen solutions.

**US CONSUMPTION OF
NON-FERTILIZER AMMONIA***
(Million Tonnes NH₃)



Source: Fertecon
* Estimates

Industry consultants forecast considerable growth in industrial sales of nitrogen, which will benefit PCS.

INDUSTRIAL PRODUCTION

Many PCS nitrogen products have widespread industrial uses. Of the Company's 1998 US production, more than one-quarter of the ammonia, 62 percent of urea, 74 percent of ammonium nitrate and all nitric acid went to industry, mainly in the US.

PCS is responding to the growing demand for industrial nitrogen products by expanding its production capabilities. Nitric acid capacity is being increased at Geismar to meet rising market demand. Its new state-of-the-art plant, the fifth in its complex and the largest in the US, was designed to have extremely low air

emissions. Its production will be used by customers to make both methyl diphenyl diisocyanate (MDI) and toluene diisocyanate (TDI), used in flexible cushioning foams and rigid urethane foams.

PCS also produced 0.092 million tonnes of micro prilled urea at Memphis.



Several long-term industrial customers have built plants adjacent to PCS nitrogen facilities, and are conveniently connected by pipeline.

Urea Solids			Ammonium Nitrate Solids			Nitrogen Solutions			Employees (active)
Annual Capacity	1998 Production	1997* Production	Annual Capacity	1998 Production	1997* Production	Annual Capacity	1998 Production	1997* Production	
.586	.512	.489	—	—	—	—	—	—	388
.274	.348	.282	.397	.410	.343	.581	.467	.356	142
.329	.260	.192	—	—	—	.163	.157	.128	2 ⁵
—	—	—	—	—	—	1.028	.955	.873	152
.399	.395	.249	—	—	—	—	—	—	159
—	—	—	.079	.078	.077	.163	.081	.083	114
—	—	—	—	—	—	.436	.436	.344	125
—	—	—	—	—	—	.408	.003	.082	5
1.588	1.515	1.212	.476	.488	.420	2.779	2.099	1.866	1,087 ⁴

⁴ 502 contract employees work at the nitrogen plants, for a total active workforce of 1,589.
⁵ BP Chemicals operates the Lima facility under an operational agreement with PCS Nitrogen.

WHAT ARE THE MAJOR MARKETS? The United States, China, India, Brazil.

CHARACTERISTICS? The US, the world's largest consumer of fertilizers, is a mature market with relatively stable annual consumption. Important factors are acreage planted and application rates per acre. China, a major potash and phosphate importer, is evolving from centralized purchasing to a multiple customer system. In India, an important market for potash and phosphate, purchases are affected by subsidy levels. Brazil, the largest agricultural producer in Latin America and a major potash importer, applies fertilizer to cash crops it grows for export. Weather and politics may affect fertilizer purchases in any country.

PCS STRENGTHS: Multiple product locations; efficient transportation network; one-stop shopping convenience.



BUILDING ON GLOBAL AND DOMESTIC OPPORTUNITIES

World consumption of fertilizers continued to grow in 1998; total sales of nitrogen, phosphate and potash for agriculture and industry increased by approximately 1 percent over 1997. Nitrogen and phosphate sales rose despite economic difficulties in Asia, the Former Soviet Union (FSU) and Latin America, while world sales of potash fertilizer fell slightly due to large volume buying the previous year.

PCS continued to serve its customers by providing the three primary nutrients through its efficient transportation network. That network of railways, trucks, river barges and ocean-going bulk carriers, plus strategically located warehouses, makes the Company a reliable supplier able to provide just-in-time delivery.

A focus group of dealers in 1998 rated PCS Sales as the supplier that does the best job of serving their NPK needs, and the most honest, modern, dependable and on-time. Since it has no large retail network, they did not consider it a competitor.

The major fertilizer market for PCS is the United States, its home market in all three nutrients. In 1998, PCS maintained its market share in each nutrient. The world's largest consumer of potash, the US is the Company's biggest single market. It is a big user of phosphate fertilizers, and PCS has 16 percent of its DAP market and about half of the market for liquid fertilizers. The US is also a major producer and consumer of ammonia for both fertilizer and industry; PCS has significant sales in both areas.

An aerial photograph showing a vast expanse of terraced rice fields in Asia. The fields are arranged in a series of curved, step-like patterns that follow the contours of the land. The water in the fields reflects the light, creating a shimmering effect. The surrounding landscape is lush and green, with some trees and small structures visible in the distance.

Asia is an emerging fertilizer market with a huge potential for greater consumption.

Offshore, the majority of PCS potash sales are handled by Canpotex, the export sales agency for Saskatchewan producers. Offshore phosphate sales are the responsibility of PhosChem, an association for US exports of phosphate fertilizers whose market position has been strengthened by the inclusion of Mississippi Chemical and Mulberry. PCS Sales handles all liquid phosphate exports for PhosChem, as well as offshore sales of the Company's New Brunswick potash and Mississippi Chemical's potash from New Mexico, and all sales of PCS nitrogen products.

China, Brazil and India are the major offshore fertilizer markets.

China, with 22 percent of world population and 7 percent of arable land, has made increased fertilizer use a priority. Its potash consumption has risen by an average of 9 percent a year in the last 10 years, and PCS is a major supplier. China is the world's largest DAP importer, with almost two-thirds of its imports provided by PhosChem. Usually the world's largest importer of urea, China stopped importing during 1997, affecting ammonia and urea markets.

Brazil, the largest country in South America, is a major consumer of potash, and an important market for PCS. It is the largest single market for the Company's New Brunswick potash.

PCS sells little potash to India but its purchases support prices and absorb tonnage that could otherwise compete with the Company's products. It is a major phosphate importer. Its primary DAP supplier is the US, and the majority of its MGA comes from Morocco. It buys MGA to make DAP or it buys DAP, depending on price.

PCS POTASH IN DEMAND

World demand for potash continued strong in 1998 and, as no new supply came on stream, the market was firm. World sales are estimated at 41 million tonnes and PCS sold 16 percent of that, 6.409 million tonnes (including inter-company sales to Florida Favorite Fertilizer). Its sales were just 5 percent below its all-time record set in 1997. Offshore markets took 56 percent of total sales volumes, domestic markets 44 percent. First-quarter sales, led by offshore demand, established a

new Company record, and third-quarter sales came close to matching the 1997 record for that quarter. Prices increased in both markets.

DOMESTIC

PCS sold 2.828 million tonnes of potash domestically in 1998, meeting almost 30 percent of North American demand. After 1997, an exceptional year with large volume purchases in fall and winter in anticipation of price increases, 1998 sales by all suppliers were down about 11 percent. Sales by PCS, which include 0.126 million tonnes sold to Florida Favorite Fertilizer, were 10 percent below its 1997 record. The United States market took 90 percent of the Company's domestic potash; the major customers were large agricultural co-ops and national firms.

Although shipments for the spring season didn't differ much in total volumes from 1997, the quarterly distribution was quite different and illustrates the difficulty of quarter-over-quarter comparisons. After the huge fall/winter fill which set Company sales records in fourth quarter 1997 and first quarter 1998, sales in the second quarter were lower than the previous year. Sales surpassed the 1997 record in the third quarter, but fell back toward the end of the year, when it was clear that farmers were postponing purchases for their spring season needs until 1999.

Total domestic sales in 1998 included 0.109 million tonnes of product compacted at the Company's new Cassidy Lake property in New Brunswick. It began taking standard potash from Rocanville in April and upgrading it to granular product wanted in domestic markets on the East Coast.

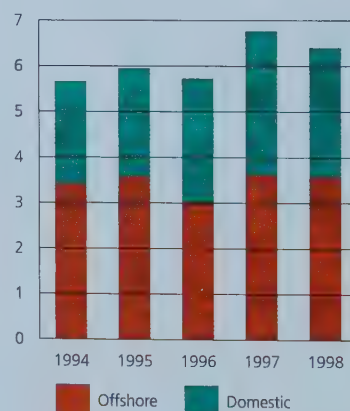
Domestic prices were the strongest in more than a decade. Higher prices were achieved for March and held up well for the rest of the year. Proposed price increases for first-quarter 1999 will be tested when the spring season commences.

OFFSHORE

Markets offshore bought 3.581 million tonnes of PCS potash in 1998, just 0.042 million tonnes below the export record set in 1997.

Again, China and Brazil were the Company's main markets, but Malaysia bought record volumes, as did the emerging markets of

PCS POTASH SALES VOLUMES
(Million Tonnes KCl)



Notwithstanding the economic difficulties of many Asian nations, offshore volumes were only 1 percent below the 1997 record.

Thailand and Vietnam. Except for Indonesia, Asian economic problems did not have much impact on sales, for countries there understand how important potash is to the cash crops they grow for export.

At 5.1 million tonnes, sales by Canpotex were less than 2 percent below the 1997 record. PCS provided 2.966 million tonnes of that. The largest Canpotex markets were China, Brazil, Malaysia and Japan, which together took 63 percent of its volumes.

China, which purchased near-record volumes from all suppliers, bought 31 percent of the potash sold by Canpotex. Brazil bought a total of 3.2 million tonnes from all sources, though economic difficulties in the second half held its imports below the 1997 record. Canpotex had the second-best year in its long history in Brazil, providing 20 percent of all potash sold there; that was 13 percent of total Canpotex sales. Brazil was the largest single export market for PCS potash from New Brunswick, with

55 percent of its offshore sales. Delays in government decisions on subsidies affected India's 1998 imports slightly, despite demand.

With strong offshore demand, Canpotex achieved higher prices in Japan, Korea, Australia, China and Brazil.

NON-FERTILIZER

More than 7 percent of total potash sales were industrial, sold to customers who refine it further or use it for manufacture of other products. Sales were up 2 percent over 1997, and 68 percent went offshore, where Japan, Korea and China are important customers. Industrial potash prices were up by 10 percent.

A small amount of PCS potash is sold for animal feed supplements. In 1998, sales increased by 13 percent to 0.027 million tonnes.

All non-fertilizer sales are included in domestic and offshore totals.

Developing nations, where most world population growth is taking place, are large importers of fertilizers and use them to produce a wide range of crops.



HIGHER PHOSPHATE SALES

With higher world demand for phosphates in 1998 and continued tight supply, the phosphate market remained in balance. World trade was up an estimated 2 percent over 1997 levels, led by record sales of the many phosphate fertilizer products.

World production and consumption of DAP rose by 3 percent, setting new records. China, a major DAP consumer and importer, used large volumes. Uncertainty about subsidy levels limited India's purchases for much of 1998, but it re-entered the market late in the year and its total purchases exceeded those of 1997.

MGA production and consumption worldwide grew by 2 percent in 1998. India is the single largest importer of MGA, which it uses to make DAP, and in 1998 its purchases amounted to almost half of international trade. Its one-year 1998 contract with its major suppliers matched the 1997 record volumes.

PCS sold 4.627 million tonnes of phosphate products in 1998, 4 percent more than in 1997. Almost two-thirds of sales were domestic, up from 62 percent the previous year. Following its policy of emphasizing the products with the best margins, the Company limited its MGA exports and upgraded its phosphoric acid for sale in North America where prices were better. It had 23 percent of North American phosphate sales, including one-third of all non-fertilizer phosphate sales.

PHOSPHATE PRODUCTS

Solid and liquid phosphates, used primarily for fertilizers, made

up 79 percent of PCS phosphate sales in 1998. Feed supplements for livestock and poultry made up 16 percent, and the remainder was industrial and purified product and phosphate rock.

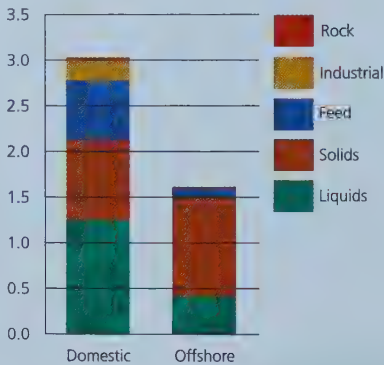
Solid Phosphates: DAP sales in 1998 totalled 1.962 million tonnes, slightly more than the 1.924 million tonnes sold the previous year. Of that, 1.083 million tonnes were sold offshore through PhosChem, whose DAP sales jumped 11 percent to 4.912 million tonnes; PCS supplied 22 percent of that. Two-thirds went to China, always the largest offshore buyer, and India, Thailand and Japan were other major purchasers. Pakistan's purchasing patterns affect world DAP trade and it returned strongly to the market in 1998, including some tonnage from PhosChem. Vietnam, another sizable importer, also returned strongly to the market. Offshore prices were up 3 percent over 1997.

PCS sold 0.879 million tonnes of DAP domestically, 8 percent more than in 1997 and 45 percent of total DAP sales. Domestic prices were similar to 1997.

Liquid Phosphates: Sales of liquid phosphate products continued their annual rise to total 1.684 million tonnes, 13 percent more than 1997, which had been a 20-percent increase over the previous year. All the increase was in domestic sales, which were up 18 percent.

Superphosphoric acid, which is used in conservation tillage systems, was the major domestic product, comprising half of liquid sales. Domestic prices climbed through spring and summer, with the average price for the year up 3 percent.

1998 PCS PHOSPHATE SALES VOLUMES
(Million Tonnes Product)



PCS customers vary by both geography and end use.

Nitrogen fertilizers are the first fertilizers US farmers buy, the most in demand and the fastest-growing in use.



Amber MGA was the major export product. PCS supplied 71 percent of the 0.503 million tonnes of MGA shipped by PhosChem. The association's sales were up by 19 percent, with India, Australia and Brazil the biggest markets. Liquid prices rose through 1998, reflecting strong sales, for a year-over-year increase of 7 percent.

Phosphate Rock: In keeping with the PCS policy of retaining its phosphate rock for its own production, sales were limited to 0.009 million tonnes, just 30 percent of 1997 sales.

Feed Supplements: PCS sold 0.747 million tonnes of phosphate feed supplements, almost identical to 1997. Half of that was Monocal, with Dical amounting to 27 percent, DFP 21 percent, and feedgrade MAP and DAP the remainder. Eighty-seven percent of sales were domestic, and prices were similar to 1997.

In offshore markets, Asian demand was down due to the effect of local economic problems on demand for meat, but new markets in Chile, Peru and Vietnam offset this decline. Offshore prices were down 9 percent. When offshore and domestic markets are taken together, feed supplement prices were flat over 1997.

Liquid products sold to the feed market, and included in total liquid phosphate sales, amounted to 0.194 million tonnes. When all phosphates sold to the feed market are considered together, both volumes and prices were flat compared to 1997.

Industrial Products: In a joint venture with Albright & Wilson

Americas, Aurora produces both food-grade acid and technical grade for industrial processes and products. Total sales involved were 0.225 million tonnes in 1998, which are included in other phosphate sales. Additional phosphate products sold for industrial use, also included in other phosphate sales, totalled 0.213 million tonnes. Most of this came from Geismar, which sells phosphoric acid under contract to Rhodia, Inc. as a feedstock for its food-grade acid purification plant located beside the Geismar plant.

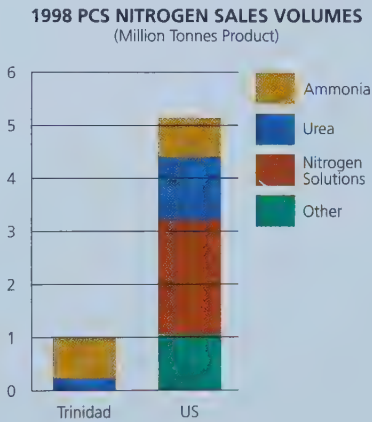
Sales volumes of all phosphates sold for industrial use were up 13 percent, while prices fell 7 percent.

NITROGEN SUPPORTED BY INDUSTRIAL PRODUCTS

PCS benefited from its wide range of nitrogen industrial products in 1998, when ammonia supply continued to outpace demand with a damaging effect on prices for nitrogen fertilizers.

World consumption of ammonia for both agriculture and industry grew by 2 percent in 1998. Still, the nitrogen market struggled throughout the year, with trade and prices down compared to 1997.

Along with the excess supply of ammonia, China's absence from the urea market — where traditionally it has been a major purchaser — affected prices and profits for producers. China's ammonia production was up by an estimated 2 million tonnes, which was upgraded into urea for its own use. Ammonia production was also higher in the United States, India,



The US nitrogen production was consumed in the US. About 85 percent of ammonia from Trinidad went to the US market, mostly to DAP producers.



Trinidad and the Middle East, after new supply came on stream. Consumption of ammonia rose in China by approximately 2 million tonnes. It also rose in India, in the Middle East where it was converted to urea for export, and in the US where it was used to make DAP for export. The FSU cut production in 1998, and its consumption fell.

Although prices were influenced by the oversupply of ammonia, PCS was partially sheltered by its wealth of industrial products. In 1998, it had approximately 28 percent of the industrial nitrogen market in North America, and 18 percent of the total nitrogen market.

NITROGEN PRODUCTS

PCS sold 6.679 million tonnes of nitrogen products, both manufactured and purchased, in 1998, 11 percent more than in its 10 months as a nitrogen producer in 1997. Ninety-four percent of sales were domestic. Sales of manufactured products were up by 25 percent, while resale of purchased product was down by 51 percent. Most of this was ammonia, which the Company purchases from producers in the Former Soviet Union and other countries. In 1998 it chose to decrease these purchases by 49 percent and use its own ammonia.

Sales of ammonia, which is used as a fertilizer and as feedstock for other nitrogen products, totalled 1.496 million tonnes, 41 percent more than in 1997. Almost 90 percent was domestic.

Urea sales were up 16 percent to 1.425 million tonnes. Urea is the Company's largest export nitrogen

product, and 18 percent of sales went offshore, all from Trinidad.

Nitrogen solutions again represented the largest sales product, and 2.164 million tonnes were sold, 26 percent more than in 1997. All sales were domestic; North American farmers' increasing use of conservation tillage methods and site specific fertilizer applications raises demand for nitrogen solutions, which are well-suited to these methods.

Other nitrogen sales of 1.040 million tonnes included ammonium nitrate, up 11 percent to 0.465 million tonnes, and nitric acid, up 35 percent to 0.417 million tonnes. All ammonium nitrate and almost all nitric acid was sold in North America.

Included in total 1998 sales of nitrogen products were 2.254 million tonnes of higher-margin industrial nitrogen products, 30 percent more than in 1997. Much of the increase was due to higher contract volumes influenced by the strong US economy, particularly housing starts.

Also included in total 1998 sales were nitrogen feed sales of 0.074 million tonnes, 86 percent of it urea prills and the rest urea solutions. Total volumes were up 2 percent. Almost all sales were domestic, but small volumes were sold to Mexico for the first time.

Prices for all nitrogen products were down in 1998, affected by an oversupply of ammonia, China's absence from the market and lower prices for FSU product due to a devalued ruble and lower production costs. Fertilizer products were hardest hit, falling

Urea is an important ingredient
in high-quality dyes for textiles.



28 percent from 1997 levels. Prices for industrial products were affected by the general nitrogen market and fell 14 percent, but remained higher than fertilizer prices throughout the year. Ammonia prices offshore were down 22 percent and urea prices 18 percent. The fall in domestic prices ranged from 4 percent for ammonium nitrate to 25 percent for ammonia.

In 1998, PCS signed an agreement with Melamine Chemicals, which produces melamine for surface coating and laminating resins used in countertops, cabinets, floors, automotive and appliance paints, and other products. When this agreement is concluded, PCS will provide up to 113,000 tonnes per year of urea liquor to Melamine Chemicals, which plans to build a plant beside the PCS facility at Memphis. Construction is expected to begin in 1999. When the Melamine plant is completed, a large majority of the PCS Memphis production will be used for industrial purposes.

Several other large customers also have plants adjacent to Company facilities and connected by convenient pipeline. PCS signed major contracts with six other industrial customers for nitric acid, ammonia and urea.

OUTLOOK FOR 1999 AND BEYOND

While some national economies floundered in 1998, world population grew by about 80 million with a corresponding increase in the demand for food. Meeting that demand from the world's declining acreage of

arable land requires balanced fertilization; without it, there is no hope of feeding billions of people with ever-increasing food requirements and desire for better and more varied diets, particularly meat. At the same time, grain stocks are in delicate balance. One bad crop year can put the global food supply at risk.

PCS is well-equipped to help the world meet these challenges. It is first and foremost a fertilizer company and a leading exporter to developing countries, where fertilizer consumption is growing at three to four times the rate in the developed world. These countries, where population is rising and a growing middle class insists on better food, increasingly recognize the role of fertilizer in helping to fulfil the new food demands. They are emphasizing the need to apply adequate amounts of fertilizer and to better balance their application of the three nutrients.

China, the world's most populous nation, is the largest user of fertilizer so its buying patterns are always important and influential. Potash and DAP are key fertilizer imports for China, and its demand for them is expected to continue to be strong in 1999. China has made essentially no urea purchases since mid-1997, with a lowering effect on world nitrogen pricing. It is producing more of its nitrogen needs. Its return to the urea market would affect both sales and prices positively, but there is no indication when that might occur.

India's fertilizer purchases depend on its subsidy levels, and producers have been urging the government to set levels early for the new fiscal year.

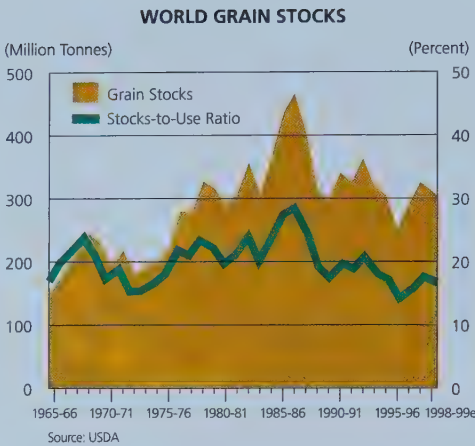


The people in developing nations are demanding better diets with more variety and better quality of food, and fertilizer is crucial to meeting those needs.

Large-volume purchases of potash and DAP are expected for 1999. Brazil, the third of the Big Three offshore potash markets, is expected to continue to import large volumes of potash, which is critical for the cash crops of soybeans, coffee, citrus fruits and sugar cane that provide vital export revenues.

North American fertilizer demand is expected to be higher in 1999 than in 1998, with a strong spring season likely. The US government is providing farmers with \$6 billion in emergency spending for agriculture in support of low commodity prices and in disaster relief. Net cash farm income is expected to be the second highest on record. Total acreage planted is expected to be much the same as in 1998.

In concert with supply, world trade affects prices. Estimates of changes in 1998 trade, compared to 1997, vary among the nutrients: Phosphate trade was up



World grain inventories remain below the stocks-to-use ratio which the FAO considers the minimum needed to safeguard food security.

2 percent, potash trade down 4 percent after a very strong 1997 and nitrogen down 4 percent. In all three nutrients, PCS maintained its market share.

The FSU is an important fertilizer producer and its potash and phosphate companies are increasingly aware of the law of supply and demand and its effect on profitability. Potash producers there are operating at close to actual current capacity but are constrained by infrastructure limitations. They sell through

International Potash Company, whose successful joint agreement with Canpotex in Malaysia is continuing. Infrastructure constraints also affect the FSU phosphate industry, which is much smaller since privatization. The nitrogen situation is different. FSU ammonia production is influenced by local conditions unrelated to world demand, and benefits from a devalued ruble and lower gas prices. Ammonia and urea exports are down.



Efforts are being made to increase domestic fertilizer use, which will affect the world supply/demand balance. Russia's 1998 crop was a disaster, and the government has announced measures to increase fertilizer consumption there in 1999.

Demand is expected to grow in both domestic and offshore potash markets in 1999, and prices should remain firm with continued strong trade. Increases in world phosphoric acid capacity should be matched by increased utilization, as phosphate trade is expected to remain strong, keeping supply/demand tight and prices firm. Nitrogen exports are forecast to increase in 1999 but excess capacity worldwide will continue to keep prices down, unless there are cutbacks in production. The nitrogen business has much upside potential and can easily be stimulated by unexpected events such as plant outages and closures.

PCS anticipates continued strong demand for its industrial products, and expects to benefit from contracts

INDICATORS TO WATCH

- US acreage planted
- Subsidies in India
- Reappearance of China in the urea market
- Potash imports in Brazil
- Fertilizer exports from the FSU
- Nitrogen plant outages and closures

with new customers scheduled to be completed in 1999. It will continue to shift its phosphate and nitrogen from fertilizer to industrial products and feed supplements. Its expansion at Geismar with a contract customer will enable the Company to continue to grow its sales of nitric acid, the highest-margin nitrogen product. Industrial prices in phosphates should be similar to 1998, and in nitrogen they should continue to demand a

premium over fertilizer. Demand for the PCS livestock and poultry feed supplements is expected to be stable in 1999, but the difficulties in Asian markets — where meat consumption had been growing — will likely affect prices.

Economic and political events within and between nations may cause temporary problems for fertilizer companies in the short run, but long-term fertilizer prospects continue to be promising because of rising world population and demand for food. Rather than a smooth upward sweep, demand for fertilizer has always snaked around a rising trend line.

In the US, nitrogen and phosphates make up more than 90 percent of the fertilizer used by wheat, and most is applied before or at planting.





WHAT DOES STEWARDSHIP MEAN?

Long-term service awards for employees and scholarships for employees' children; contributions of time and money to community events; attention to corporate governance; a responsible corporate environmental policy and high standards of environmental care; treating safety as a priority.



Restored or created wetlands at Aurora add beauty to the area, attracting wildlife and wading birds such as this egret.

FULFILLING ITS RESPONSIBILITIES

Almost two-thirds of the PCS workforce of 5,744 at December 31, 1998 worked in the United States, with 29 percent in Canada and 7 percent in Trinidad. The annual payroll is approximately \$248 million.

The Company recognized and rewarded the long-term commitment of its employees by presenting 955 service awards in 1998. Forty scholarships were awarded to sons and daughters of employees for post-secondary study — 12 Chairman's Awards and 28 Divisional Awards.

SHARING IN ITS COMMUNITY

PCS responds to requests to support a wide range of causes in the communities in which it operates, and individual operations support their local communities with donations and employee participation in many activities. The Company matches employees' personal donations to their favorite charities through its long-standing Matching Gift Program.

In the last three years, PCS has contributed CDN\$5 million to the University of Saskatchewan First and Best Campaign. In response, the University in 1998 established the Chuck and Norma Childers Chair for Saskatchewan Enterprise in the College of Commerce. The Company is also in the third year of its five-year commitment to the North Carolina Museum of Natural Sciences in Raleigh.

As usual, PCS corporate office employees and those at Cory, Allan and Patience Lake raised their contribution to the Saskatoon United Way and it was matched by the Company. Employees again received the Gold Award for participation and the Company its seventh Gold Corporate Award. PCS Allan received the Quantum Leap Award for its significant increase in donations. Employees at White Springs increased their contributions to the United Way of Suwannee Valley by 6 percent, which, matched by the Company, made up about one-third of the funds raised. Employees at PCS Nitrogen contributed 19 percent more to the Memphis United Way than in 1997.

A donation from White Springs gave a major boost to Heritage Village in Jasper, Florida by making possible the acquisition of land on which this collection of buildings and exhibits depicting early North Florida history is located. White Springs contributed to several

environmental and educational organizations in Florida and received the Florida Commissioner of Education's Business Recognition Award for the third straight year for its contributions to schools. It also received a Governor's Business Leadership Award for 1998, one of only nine Florida companies to do so.

The 75 employees at Aurora who participated in the American Cancer Society's 24-hour Relay for Life raised more money than all other participating companies or groups and received the Excalibur Award, the Society's top award. Aurora successfully completed its 23rd annual Salvation Army campaign, with increased donations, and many employees volunteered to teach Safelife in elementary schools.

A \$10,000 contribution by PCS Nitrogen to the Memphis Zoo was commemorated by two permanent in-ground plaques in the zoo's Once Upon a Farm area, which includes growing plots, farm animals and an interactive historical agricultural display.

Employees at Weeping Water donated their time to give more than 450 visitors to the community's annual Limestone Days tours of the PCS limestone mine as well as safety training. Limestone Days recognizes the economic importance of limestone to the local area. Weeping Water uses its limestone to make the feed supplements Dical and Monocal.

Employees at Clinton made a Christmas Caring Tree, complete with Santa Claus, for children at the day-care centre at its partner school, Lincoln Alternative High School, which is operated within the public school system.

CORPORATE GOVERNANCE

The responsibility for corporate governance rests with the Board of Directors of PCS, which has the duty to direct the management of the business and affairs of the Company.

Having regard to the guidelines published by the Toronto and Montreal stock exchanges, PCS reports annually with respect to its corporate governance practices. For a complete review of those practices, see the section entitled "Corporate Governance" in the Company's current proxy circular.

The Board of Directors is made up of 15 members, 13 of whom are outside directors. No significant shareholders are represented on the Board.

Each of the four committees of the Board plays a significant role in the discharge of Board duties and obligations. Each committee (audit, compensation, environmental affairs and executive) is composed entirely of outside directors, except the executive committee which is chaired by the Chief Executive Officer. Each committee is empowered to retain outside advisors. Individual directors may engage outside advisors at the Company's expense upon authorization of the executive committee.

The Company has adopted a corporate disclosure policy which calls for the timely public dissemination of material information. Shareholder questions, comments and concerns may be made to the Senior Vice President, Corporate Relations, who is responsible for implementing the disclosure policy, to the Corporate Secretary or to the Company's transfer agent.

PRESERVING THE ENVIRONMENT

Farmers' desire to maintain their land and water is shared by the companies that provide the nutrients which help keep that land fertile and enable the effective use of water. Conservation tillage systems are now used on 37 percent of US cropland, and PCS is a leader in producing fertilizers for those systems. It shares in efforts by fertilizer companies to encourage farmers to use the right amounts at the optimum time for each crop, and to balance nutrient use.

PCS takes seriously its responsibility to fulfill the terms of the environmental permits and applicable federal, provincial, state and local laws that govern air emissions, waste water discharges, land use and solid and hazardous waste management at all its operations. It must, according to corporate environmental policy, manage its operations responsibly to safeguard the natural resources related to or affected by its activities. Each production unit must work diligently to minimize potential risks to the environment and to comply with environmental legislation and regulations. The Board's environmental affairs committee reviews all audit reports.

In-depth information on PCS environmental activities is available on its website at www.potashcorp.com.

POTASH AND ITS ENVIRONMENT

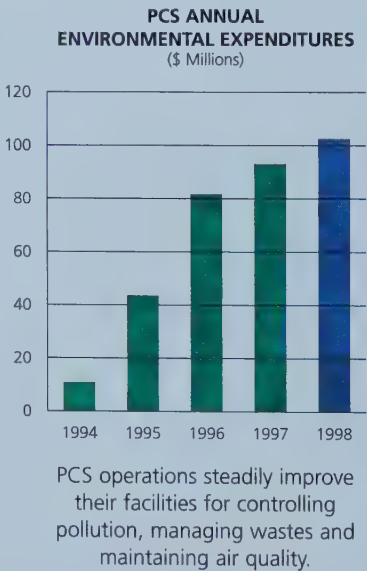
The Director, Environmental Affairs for potash, audited all divisions in 1998; each environmental management system met the objective of minimizing the risk of serious environmental degradation. All divisions except the newly-acquired Cassidy Lake were substantially compliant with all applicable environmental regulations and corporate environmental policy. Cassidy Lake quickly corrected all significant cases of non-compliance.

An impervious cutoff wall five kilometers long and 20 meters deep was completed at Rocanville, to prevent sub-surface seepage from the waste management area. The largest such installation in Canada, this wall incorporates design features developed through research sponsored by the Saskatchewan Potash Producers Association.

A buried drain was installed at Cassidy Lake to eliminate the possibility of brine seepage entering the Hammond River. The division received a Watershed Management Partner Award from the Hammond River Angling Association. The State of Utah issued final approval for Moab's operating and reclamation plans.

PCS is supporting environmental research at the University of Saskatchewan investigating the potential for movement of fluids through groundwater barriers. Early results in this multi-year project indicate that these barriers are more impermeable than had been thought. An internal research program is being organized to develop better methods for disposing of the insoluble portion of potash refinery wastes.

The decommissioning and reclamation plan for each Saskatchewan mine submitted by PCS Potash to the Saskatchewan Department of Environment and Resource Management was accepted in its technical aspects. Some discussions continue between producers and Department officials.



PHOSPHATE AND ITS ENVIRONMENT

In 1998, internal audits were conducted at all phosphate facilities, and a few issues were identified and corrected. Major capital projects included a conversion in the Aurora phosphoric acid plant to discharge gypsum directly to the gypsum/clay blend system and improvements to White Springs' pond system and spill prevention systems.

Under agreement, the Florida Game and Fresh Water Fish Commission began managing a reclaimed lake at White Springs for public fishing. The Governor's Council for Sustainable Florida is working with White Springs as a test case for application of draft Sustainable Florida Standards for businesses which integrate environmental protection, economic development, public participation and community quality of life.

Environmental projects at the Company's feed plants included installation of new fugitive dust collection systems at Weeping Water and Marseilles.

Land Reclamation: PCS leadership in this area was recognized when the US Army Corps of Engineers officially agreed in 1998 that 429 acres of restored or created wetlands at Aurora met the success criteria and could be used for mitigation against future wetland impacts. Approximately 6,000 trees were planted in one project and a multi-year monitoring program under way elsewhere focused on water table levels and successful planted vegetation near three creeks.

Part of White Springs' reclaimed lands houses a commercial recreational hunting and fishing business which the Company considers an endorsement of the wildlife value of its lands. The Florida Department of Environmental Protection gave this business an award for innovative use of reclaimed lands, recognizing White Springs in the presentation.

NITROGEN AND ITS ENVIRONMENT

In 1998, three nitrogen facilities and five terminals were audited by a PCS/consultant team and received favorable reports. A federal Environmental Protection Agency audit of LaPlatte and three state audits of Augusta resulted in no citations, and no violations were found in a waste water audit of Lima by the Ohio Environmental Protection Agency. Augusta and Clinton had no reportable quantity emissions.

Lima won the Ohio Chemical Council 1998 pollution prevention award. Geismar received a certificate for participation in the Louisiana Environmental Leadership Pollution Prevention Program, implementing environmental projects that go beyond regulatory compliance.

Major capital improvements included installation of an ammonia process flare for all ammonia relief valves at Geismar, and a waste water concentrator which allows recovery of ammonia from its waste water system. Lima installed a vent scrubber for the urea granulator; LaPlatte implemented secondary containment for all fertilizer storage.

Geismar has an environmental research project to remove uranium and radium and isolate hydrofluoric and phosphoric acid from the phosphate plant waste stream. A pilot project was scheduled for early 1999. Clinton is planting poplar trees to remove nitrates from ground water.

Water lilies, reeds, shrubs and trees combine into peaceful beauty in this restored wetland at Aurora, which with White Springs leads in US land reclamation achievements.



EMPHASIZING SAFETY IN ALL ITS OPERATIONS

Safety is a top priority and a constant focus at all PCS enterprises, and operations throughout the Company have achieved enviable safety records. For example, in 1998, employees at Aurora stacked up 2 million, 3 million and finally 4 million hours without a lost-time injury. Individual departments within various facilities have accumulated exceptional safety records: 30 years in Aurora's Technical Services, 29 years in Lima's Nitrogen Laboratory. The Company has created the President's Award for 1 million hours worked by an entire operation without a lost-time injury, and the Chairman's Award for 2 million, 3 million and 4 million hours. All awards are presented personally by Chairman and CEO Charles E. Childers.

Safety achievements are honored outside the Company, too. In 1998, New Brunswick and Lanigan each received a John T. Ryan "special award certificate" for outstanding achievement in safe production in 1997. The John T. Ryan awards are *the* awards in Canada for mining safety, and this is Lanigan's sixth award. New Brunswick also received the New Brunswick Mining Association's award for the lowest frequency and severity of lost-time accidents of all mines in the province in 1997.

In 1998, Clinton received its fifth Iowa Safety Council Award for Outstanding Achievement in Accident Prevention. LaPlatte received the Award of Honor with distinction with six gold stars from the Safety and Health Council of Greater Omaha, Nebraska, as well as its Seat Belt Honor Award. Wilmington was presented with its third North Carolina Department of Safety Award.

PCS Nitrogen, Aurora and White Springs received their second consecutive Thoroughbred Chemical Safety Awards from Norfolk Southern Corporation for shipping more than 1,000 carloads of hazardous materials in 1997 without a shipper-caused accident.

The entire PCS Phosphate operation reduced its

Recent Potash Safety Milestones

Time without a lost-time injury

Lanigan SK	3 years on August 1, 1998; 2 million hours on February 28, 1999
Allan SK	4 years on October 22, 1998
New Brunswick NB	4 years on June 8, 1998; 3 million hours on January 12, 1999
Moab UT	3 years on February 7, 1998

at Aurora and contractors working there exceeded 1 million hours without a lost-time injury. White Springs completed an upgrade of its contractor safety program and trained local volunteer fire department personnel in hazardous material emergency response.

PCS Nitrogen improved its overall safety performance in 1998, with an OSHA recordable rate of 1.3 and three less recordable injuries than in 1997. The Behavioral Accident Prevention Process was fully implemented. Augusta completed the year without one OSHA recordable injury, and Lima retained its OSHA

recordable injuries by 38 percent in 1998, achieving an Occupational Safety and Health Administration (OSHA) incidence rate of 1.61. Safety Training Observation Program (STOP) training was completed for all employees

VPP Star status. Memphis hosted a Hazardous Material training demonstration with the Company training car for the Texas Agricultural Association. Clinton trained more than 100 local firemen, emergency responders and

fertilizer dealers in safe handling of anhydrous ammonia. Hurricane procedures were included in new health, safety and environmental procedures at Trinidad. Employees who built the fourth ammonia plant in Trinidad worked more than 3 million hours without a lost-time injury.

PCS potash operations excel in the mine rescue competitions in the provinces in which they operate. For the second consecutive year, Lanigan was overall winner for soft rock mines in the Saskatchewan Provincial Mine Rescue Competition, with Rocanville runner-up. New Brunswick was overall winner at the 19th annual New Brunswick Mine Rescue Competition. Lanigan was runner-up in the 18th annual PCS Fireman's Rodeo, which involves all PCS mines and fire departments in two nearby communities competing in six rodeo events that demand a range of firefighting skills. It was won in 1998 by the Town of Lanigan team, which includes several PCS employees.

Recent Phosphate Safety Milestones

Time without a lost-time injury

Aurora NC	4 million hours on October 13, 1998
White Springs FL	1 million hours on January 18, 1999
Davenport IA	19 years on September 13, 1998
Kinston NC	5 years on December 1, 1998

Recent Nitrogen Safety Milestones

Time without a lost-time injury

Trinidad	2 million hours on January 11, 1999
Geismar LA	4 million hours on December 18, 1998

A photograph of a red barn and a cornfield at sunset. The barn is on the left, partially obscured by a large tree. The cornfield is on the right, with tall stalks of corn. The sky is a mix of orange and blue, suggesting dusk. The overall tone is warm and agricultural.

F I N A N C I A L S

Corn is the largest user of fertilizer in the U.S., accounting for more than 40 percent of all application and about the same percentage of each of the three major nutrients.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

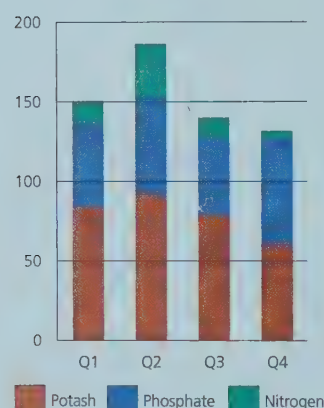
1998 VERSUS 1997

With the exception of purchased product, nitrogen data for 1997 is only for the period subsequent to the acquisition of Arcadian on March 6, 1997. Phosphate data for 1997 includes phosphate produced by the acquired Geismar operation.

OVERVIEW

(\$000's)	1998	1997	Increase (Decrease)	% Change
Net Sales				
North American	\$1,641,376	\$1,665,140	\$(23,764)	(1)
Offshore	666,387	660,789	5,598	1
	\$2,307,763	\$2,325,929	\$(18,166)	(1)
Gross Margin	\$ 609,347	\$ 585,171	\$ 24,176	4
Operating Income	\$ 446,056	\$ 447,640	\$ (1,584)	0
Net Income	\$ 261,003	\$ 297,138	\$(36,135)	(12)
Earnings per Share (dollars)	\$ 4.82	\$ 5.68	\$ (0.86)	(15)

1998 GROSS MARGIN BY QUARTER
(\$ Millions)



The strongest phosphate sales in its history and potash prices 14 percent higher than in 1997 helped make 1998 a year with record gross margin.

Higher net sales revenue in potash and phosphate – \$41.3 million and \$57.4 million, respectively – was more than offset by lower nitrogen net sales revenue of \$116.9 million, resulting in a decrease of \$18.2 million in PCS net sales revenue.

North American net sales revenue represented 71 percent (1997 – 72 percent) of total net sales revenue and offshore sales represented 29 percent (1997 – 28 percent).

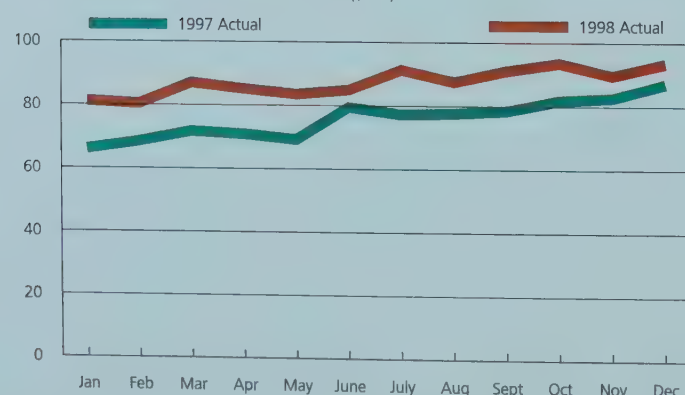
Gross margin for potash products was \$316.3 million (an increase of \$58.7 million over 1997); for phosphate products \$228.2 million (an increase of \$33.9 million); and for nitrogen products \$64.8 million (a decrease of \$68.4 million from 1997).

The decrease in net income of \$36.1 million compared to 1997 is attributable to: increases in selling and administrative expenses (\$16.3 million), provincial mining and other taxes (\$9.8 million) and income taxes (\$48.4 million) which were partially offset by a \$24.2-million increase in gross margin and a \$13.9-million reduction in interest expense.

POTASH REVENUE

	1998 Sales		1997 Sales		\$000's		Tonnes (000's)	
	\$000's	Tonnes (000's)	\$000's	Tonnes (000's)	Increase (Decrease)	% Change	Increase (Decrease)	% Change
North American	\$227,586	2,702	\$210,240	3,017	\$17,346	8	(315)	(10)
Offshore	317,905	3,581	293,927	3,623	23,978	8	(42)	(1)
	\$545,491	6,283	\$504,167	6,640	\$41,324	8	(357)	(5)

PCS POTASH PRICES
(\$/MT)



Gross margin for potash products was \$316.3 million (1997 – \$257.6 million) or 52 percent (1997 – 44 percent) of consolidated gross margin.

Potash prices in the offshore market rose early in the year with increased contract prices and then stabilized and rose again in the last half, resulting in a 9 percent increase on a year-over-year basis. The higher prices realized were primarily due to higher contract prices with Japan, South Korea and Australia and increased prices in China and Brazil.

North American potash prices increased in the last half of 1997 and first half of 1998 due to tighter

Firm supply and demand factors resulted in higher potash prices throughout 1998.

supply, then stabilized in the last two quarters, ending the year 21 percent higher on a year-over-year basis.

The currency devaluations and financial difficulties in Asian countries did not significantly affect offshore potash sales volumes. Canpotex sales volumes to Asia decreased by 6 percent from 1997, which was partially offset by a 21-percent increase in sales to Latin America (primarily Brazil). Overall, offshore sales volumes ended the year down only marginally from 1997.

North American sales volumes declined 10 percent from 1997 levels, primarily due to abnormally high sales volumes in the last half of that year. In the North American market, the 2.702 million tonnes sales volumes for 1998 were sourced as follows: 2.529 million tonnes (1997 – 2.813 million tonnes) came from Saskatchewan, 0.116 million tonnes (1997 – 0.122 million tonnes) from New Brunswick and 0.057 million tonnes (1997 – 0.082 million tonnes) from Utah.

North American net sales revenue from potash operations represented 42 percent (1997 – 42 percent) of the Company’s potash net sales revenue. Higher North American potash prices resulted in a \$39.4-million increase in North American potash net sales revenue over 1997. This was partially offset by a reduction in net sales revenue of \$22.1 million due to a 10-percent reduction in sales volumes, resulting in an overall increase in North American net sales revenue of \$17.3 million.

Offshore net sales revenue from potash operations represented 58 percent (1997 – 58 percent) of the Company’s potash net sales revenue. Higher offshore prices resulted in a \$28.2-million increase in offshore potash net sales revenue. This was partially offset by a reduction in net sales revenue of \$4.2 million due to reduced sales volumes, resulting in an overall increase in offshore net sales revenue of \$24.0 million. In the offshore market, 2.966 million tonnes were sold through Canpotex and the remaining 0.615 million tonnes were produced by PCS New Brunswick and sold and delivered by PCS Sales.

PHOSPHATE REVENUE

	1998 Sales		1997 Sales		\$000's		Tonnes (000's)	
	\$000's	Tonnes (000's)	\$000's	Tonnes (000's)	Increase (Decrease)	% Change	Increase (Decrease)	% Change
Liquids	\$ 365,006	1,684	\$309,063	1,493	\$55,943	18	191	13
Solids	374,525	1,962	362,625	1,924	11,900	3	38	2
Feed supplements	187,557	747	191,016	752	(3,459)	(2)	(5)	(1)
Industrial products	83,210	225	89,588	235	(6,378)	(7)	(10)	(4)
Phosphate rock	691	9	1,317	30	(626)	(48)	(21)	(70)
	\$1,010,989	4,627	\$953,609	4,434	\$57,380	6	193	4
North American	\$ 713,584	3,020	\$656,884	2,769	\$56,700	9	251	9
Offshore	297,405	1,607	296,725	1,665	680	0	(58)	(3)
	\$1,010,989	4,627	\$953,609	4,434	\$57,380	6	193	4

Gross margin for phosphate was \$228.2 million (1997 – \$194.4 million) or 37 percent (1997 – 33 percent) of consolidated gross margin.

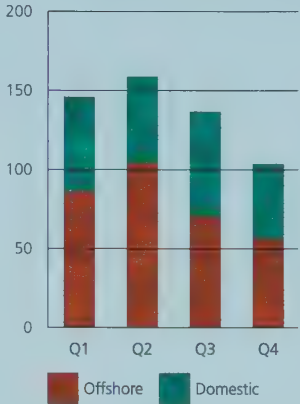
With the exception of industrial products, phosphate prices in the domestic market increased or remained constant compared to 1997. Prices for solid phosphates and feed supplements were flat while liquid phosphate prices increased by 3 percent when compared to 1997. Industrial prices fell by 3 percent over the same period.

Phosphate prices in the offshore markets (except for feed supplements) improved during 1998. Liquid phosphate prices were up 7 percent on a year-over-year basis and solid phosphate prices 3 percent. These increases were partially due to higher prices realized in Brazil. The price of feed supplements, affected by the currency devaluations and financial difficulties in Asian countries, decreased by 9 percent on a year-over-year basis.

Overall, North American phosphate sales volumes increased by 9 percent. Liquid and solid phosphate sales volumes increased by 18 percent and 8 percent, respectively. Sales volumes of industrial products decreased by 4 percent due, in part, to a strike at a significant customer’s facility which reduced sales. Feed supplements sales volumes were down marginally.

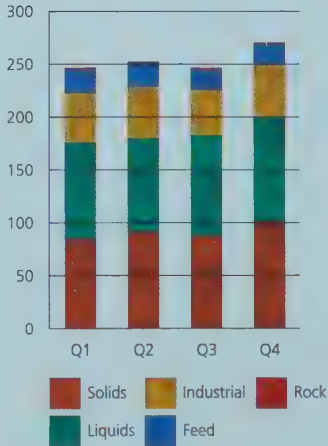
Offshore phosphate sales volumes declined 3 percent on an overall basis as the Company chose to orient its P₂O₅ production to the North American market where margins

1998 POTASH NET SALES REVENUE BY MARKET (\$ Millions)



Potash revenue was 8 percent higher than in 1997, with 58 percent provided by offshore sales.

1998 PHOSPHATE NET SALES REVENUE BY PRODUCT (\$ Millions)



PCS sold more liquid and solid phosphates in 1998, at higher prices.

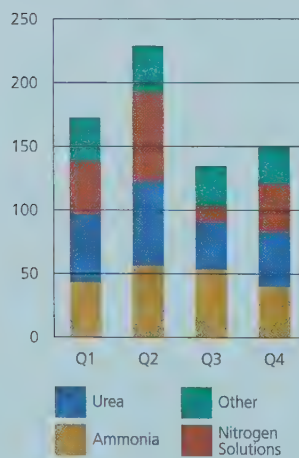
were better. PhosChem had good sales volumes in 1998; sales volumes to Asia increased by 13 percent and to Latin America by 12 percent. The Company's liquid and solid sales volumes decreased by 1 percent and 3 percent, respectively, compared to 1997. Feed supplement sales volumes were flat compared to 1997.

For 1998, North American phosphate net sales revenue accounted for 71 percent (1997 – 69 percent) of total phosphate net sales revenue. Offshore sales accounted for 29 percent (1997 – 31 percent) of total phosphate net sales revenue and 35 percent (1997 – 38 percent) of volumes. In 1998, 64 percent (1997 – 63 percent) of the Company's total phosphate net sales revenue was earned from phosphate fertilizer products which represented 70 percent (1997 – 70 percent) of phosphate sales volumes and 58 percent (1997 – 46 percent) of gross margin.

NITROGEN REVENUE

	1998 Sales		1997 Sales		\$000's		Tonnes (000's)	
	\$000's	Tonnes (000's)	\$000's	Tonnes (000's)	Increase (Decrease)	% Change	Increase (Decrease)	% Change
Ammonia	\$194,369	1,496	\$183,840	1,061	\$ 10,529	6	435	41
Urea	199,141	1,425	203,092	1,226	(3,951)	(2)	199	16
Nitrogen solutions	163,014	2,164	161,149	1,719	1,865	1	445	26
Other nitrogen products	129,775	1,040	118,472	894	11,303	10	146	16
	686,299	6,125	666,553	4,900	19,746	3	1,225	25
Purchased products	64,984	554	201,600	1,138	(136,616)	(68)	(584)	(51)
	\$751,283	6,679	\$868,153	6,038	\$(116,870)	(13)	641	11
North American	\$700,206	6,261	\$798,016	5,544	\$ (97,810)	(12)	717	13
Offshore	51,077	418	70,137	494	(19,060)	(27)	(76)	(15)
	\$751,283	6,679	\$868,153	6,038	\$(116,870)	(13)	641	11

1998 MANUFACTURED NITROGEN NET SALES REVENUE BY PRODUCT
(\$ Millions)



Non-fertilizer products represented 44 percent of nitrogen net sales revenue and 35 percent of volumes.

Gross margin for nitrogen products was \$64.8 million (1997 – \$133.2 million) or 11 percent (1997 – 23 percent) of consolidated gross margin.

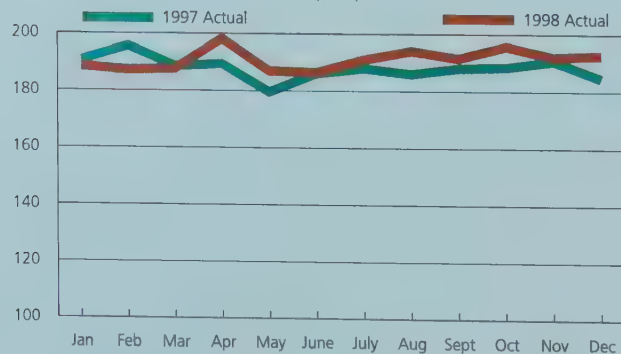
The continued absence of China from offshore urea markets and reduced cash production costs for Former Soviet Union (FSU) producers due to lower gas prices and currency weakness in the FSU countries led to significant declines in offshore prices. Urea prices were down 18 percent and ammonia prices down 22 percent compared to 1997.

Falling offshore nitrogen prices resulted in lower North American prices as well. Prices were down as follows: urea 17 percent, ammonia 25 percent, nitrogen solutions 20 percent, ammonium nitrates 4 percent and nitric acid 12 percent.

The Company's offshore sales volumes of ammonia increased by 54 percent which is explained by a full year's operation in 1998 as compared to 10 months in 1997 and the addition of the new plant in Trinidad. Offshore sales volumes of urea declined 28 percent as the Company chose to focus its sales on the North American market where prices were stronger.

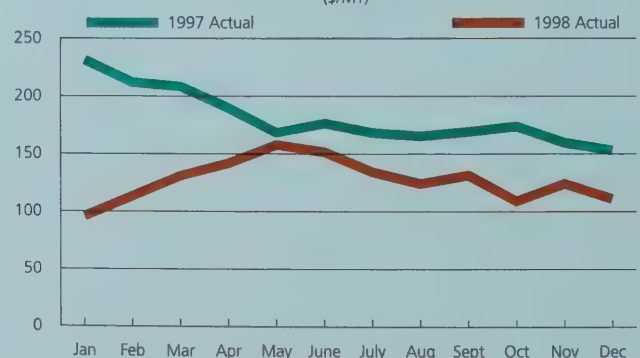
In North America, sales of ammonia for fertilizer were slow but the strong DAP market supported healthy ammonia sales to DAP producers as ammonia is a key input for DAP. This contributed to a 41 percent increase in manufactured ammonia sales volumes. When the new PCS facility in Trinidad came on stream, these tonnes replaced product purchased by the Company, reducing total ammonia sales volumes (purchased

PCS DAP PRICES
(\$/MT)



The strong offshore market helped raise DAP prices 3 percent above 1997 levels.

PCS AMMONIA PRICES
(\$/MT)



The effect of the world oversupply of ammonia on prices was tempered somewhat for PCS by its large industrial sales.

and manufactured) by 5 percent. Urea sales volumes increased 35 percent and nitrogen solutions sales volumes increased 28 percent.

The Company continued to sell a large portion of its North American nitrogen production to the more stable industrial market. On a year-over-year basis, nitrogen industrial prices fell by 14 percent compared to a 28-percent decline for fertilizer. Non-fertilizer products represented 35 percent (1997 – 30 percent) of nitrogen sales volumes, 44 percent (1997 – 34 percent) of net sales revenue and 100 percent (1997 – 51 percent) of gross margin.

North American net sales revenue accounted for 93 percent (1997 – 92 percent) of total nitrogen net sales revenue.

COST OF GOODS SOLD

	1998	1997	Increase (Decrease)	% Change
Potash production (KCl) tonnage (000's)	6,995	6,483	512	8
Phosphate production (P ₂ O ₅) tonnage (000's)	2,363	2,282	81	4
Nitrogen production (N) tonnage (000's)	3,121	2,349	772	33

Potash unit cost of sales decreased 2 percent in 1998 compared to 1997, due primarily to higher production volumes and eight fewer shutdown weeks, which were partially offset by water management costs at the New Brunswick division and costs to transport Saskatchewan product to Cassidy Lake for processing.

Overall, phosphate unit cost of sales decreased by 1 percent. This consisted of increases of 5 percent and 1 percent in the unit cost of sales of feed supplements and liquid phosphates respectively, offset by decreases of 2 percent for industrial products and 6 percent for solid phosphates (due primarily to lower input costs for ammonia). The unit cost of sulphur decreased by 2 percent compared to 1997.

PCS Nitrogen reduced its per unit natural gas cost by 12 percent compared to 1997 primarily due to its gas contracts in Trinidad. Overall, the per unit cost of sales of manufactured product declined by 8 percent, primarily due to reduced gas costs and the opening of an efficient new plant in Trinidad. The total per unit cost of sales decreased by 16 percent due to reduced gas costs, the new plant in Trinidad and the reduction in the amount of product purchased for resale.

Depreciation and amortization expense for 1998 was \$190.9 million compared to \$170.0 million in 1997, an increase of \$20.9 million or 12 percent. The increase was largely attributable to \$17.7 million additional depreciation and amortization due to a full year of nitrogen operations in 1998.

SELLING AND ADMINISTRATIVE

Selling and administrative expenses for 1998 were \$116.0 million compared to \$99.7 million in 1997. The increase of \$16.3 million was attributable to general increases in compensation and benefits, a full year of amortization of the goodwill relating to the nitrogen acquisition, an increase in bad debt expense, an increase in franchise taxes and a Revenue Canada employee benefits assessment.

PROVINCIAL MINING AND OTHER TAXES

Saskatchewan's Potash Production Tax is comprised of a base tax per tonne of product sold and an additional tax based on mine-by-mine profits. The New Brunswick division and the Saskatchewan divisions pay a provincial Crown royalty, which is accounted for in cost of goods sold.

For 1998, Saskatchewan provincial mining and other taxes were \$80.1 million compared to \$70.3 million in 1997, an increase of \$9.8 million. Potash Production Tax was \$61.6 million compared to \$53.5 million in 1997, an increase of \$8.1 million. The higher potash prices and the resulting increased profit per tonne (which was partially due to the strengthening of the US dollar as compared to the Canadian dollar), combined with the full utilization of certain provincial resource tax deductions carried forward from previous years, resulted in most Saskatchewan mines reaching the top marginal profits tax rate of 35 percent in 1998.

Saskatchewan corporate capital tax was \$18.5 million in 1998 compared to \$16.8 million in 1997, an increase of \$1.7 million. Various other payments to the Province in the form of royalties and taxes totalled \$13.2 million in 1998 and \$12.4 million in 1997, and are included in cost of goods sold.

INTEREST EXPENSE

For 1998, interest expense was \$67.6 million compared to \$81.4 million in 1997, a decrease of \$13.8 million or 17 percent, due to a reduction of the weighted average long-term debt outstanding from \$1.1 billion in 1997 to \$968.9 million in 1998. The weighted average interest rate on the long-term debt outstanding was 6.4 percent (1997 – 6.1 percent).

INCOME TAXES

Income taxes for the year were \$117.5 million, compared to \$69.1 million in 1997, an increase of \$48.4 million. The increase reflects the impact of utilization of non-capital loss carryforwards. Provincial taxes and royalties are non-deductible for federal income tax purposes.

PCS and certain subsidiaries are subject to federal and provincial income taxes in Canada. By virtue of deductions with respect to non-capital losses carried forward, capital cost allowance, Canadian development expense and earned depletion allowance, such taxes have not yet become payable. However, PCS is subject to the Large Corporations Tax. In addition, PCS records a deferred tax provision at the effective rate of 35 percent. The Company expects to begin paying Canadian income taxes in 1999.

The Company's subsidiaries which operate in the United States are subject to US federal and state income taxes. By virtue of certain income tax deductions available, these subsidiaries are not currently subject to regular federal cash income tax. However, they are subject to the Alternative Minimum Tax, which may be carried forward indefinitely as a credit to be applied against future regular income tax liabilities.

The Company's nitrogen subsidiaries which operate in Trinidad are subject to Trinidad taxes.

The effective consolidated tax rate for 1998 was 31 percent (1997 – 19 percent) of income before income taxes, of which 5 percentage points (1997 – 13 percentage points) represented cash income taxes and 26 percentage points (1997 – 6 percentage points) represented deferred income taxes. The reduction in the cash component of the provision was largely due to a reduction in the amount of US withholding taxes on certain payments received from the Company's US subsidiaries.

1997 VERSUS 1996

With the exception of purchased product, nitrogen data for 1997 is only for the period subsequent to the acquisition of Arcadian on March 6, 1997. Phosphate data for 1997 includes phosphate produced by the acquired Geismar operation.

OVERVIEW

(\$000's)	1997	1996	Increase (Decrease)	% Change
Net Sales				
North American	\$1,665,140	\$ 847,756	\$817,384	96
Offshore	660,789	556,112	104,677	19
	\$2,325,929	\$1,403,868	\$922,061	66
Gross Margin	\$ 585,171	\$ 383,974	\$201,197	52
Operating Income	\$ 447,640	\$ 299,492	\$148,148	49
Net Income	\$ 297,138	\$ 209,036	\$ 88,102	42
Earnings per Share (dollars)	\$ 5.68	\$ 4.59	\$ 1.09	24

The \$922.0 million increase in net sales revenue was comprised of: potash \$101.0 million, phosphate \$61.6 million and nitrogen \$759.4 million (the additional nitrogen net sales revenue was primarily due to the acquisition of Arcadian).

For 1997, North American net sales revenue represented 72 percent (1996 – 60 percent) of total net sales revenue, whereas offshore sales represented 28 percent of total net sales revenue (1996 – 40 percent). The change in the relative weighting of net sales revenue was principally due to the fact that 92 percent of nitrogen net sales revenue was earned in North America.

Gross margin for potash products was \$257.6 million (an increase of \$67.0 million); gross margin for phosphate products was \$194.4 million (an increase of \$3.1 million); and gross margin for nitrogen products was \$133.2 million (an increase of \$131.1 million which was primarily due to the acquisition of Arcadian).

The increase in net income of \$88.1 million when comparing 1997 with 1996 was attributable to: a \$67.0 million increase in potash gross margin and a \$131.1 million gross margin contributed by nitrogen. This increase in gross margin was offset by: \$31.6 million of nitrogen selling and administrative expense (including amortization of goodwill), a \$30.1 million increase in provincial mining and other taxes, a \$34.7 million increase in interest expense relating to the acquisition of the nitrogen operations, and a \$25.4 million increase in the provision for income taxes.

POTASH REVENUE

	1997 Sales		1996 Sales		\$000's		Tonnes (000's)	
	\$000's	Tonnes (000's)	\$000's	Tonnes (000's)	Increase (Decrease)	% Change	Increase (Decrease)	% Change
North American	\$210,240	3,017	\$157,645	2,589	\$ 52,595	33	428	16
Offshore	293,927	3,623	245,551	3,023	48,376	20	600	20
	\$504,167	6,640	\$403,196	5,612	\$100,971	25	1,028	18

Gross margin for potash products was \$257.6 million (1996 – \$190.6 million) or 44 percent of consolidated gross margin.

Potash prices in the offshore market decreased early in the year but had recovered to 1996 levels by the end of the third quarter, resulting in flat prices on a year-over-year basis. Price increases of 14 percent were realized in the domestic market. Comparisons are affected by sales to another producer during 1996.

North American net sales revenue from potash operations represented 42 percent (1996 – 39 percent) of the potash net sales revenue of the Company. The closure of Potacan's mine due to flooding and the announced closure of another competitor's mine in New Mexico tightened supply, which influenced successive domestic price increases in September and November. The increase in North American potash prices and an increase in North American sales volumes resulted in a \$52.6 million increase in North American potash net sales revenue over 1996. In the North American market, the 3.017 million tonnes sales volumes for 1997 were sourced as follows: 2.813 million tonnes (1996 – 2.438 million tonnes) came from Saskatchewan, 0.122 million tonnes (1996 – 0.079 million tonnes) from New Brunswick and 0.082 million tonnes (1996 – 0.072 million tonnes) from Utah.

Offshore net sales revenue from potash operations represented 58 percent (1996 – 61 percent) of potash net sales revenue of the Company. Strong offshore volumes contributed to higher prices during the year. In December, Canpotex signed a new contract with China at higher prices. The increase in offshore sales volumes resulted in a \$48.4 million increase in offshore potash net sales revenue. In the offshore market, 2.960 million tonnes were sold through Canpotex and the remaining 0.663 million tonnes were produced by PCS New Brunswick and sold and delivered to offshore markets by PCS Sales.

PHOSPHATE REVENUE

	1997 Sales		1996 Sales		\$000's		Tonnes (000's)	
	\$000's	Tonnes (000's)	\$000's	Tonnes (000's)	Increase (Decrease)	% Change	Increase (Decrease)	% Change
Liquids	\$309,063	1,493	\$239,716	1,240	\$69,347	29	253	20
Solids	362,625	1,924	379,326	1,880	(16,701)	(4)	44	2
Feed supplements	191,016	752	186,145	778	4,871	3	(26)	(3)
Industrial products	89,588	235	80,662	216	8,926	11	19	9
Phosphate rock	1,317	30	6,115	191	(4,798)	(78)	(161)	(84)
	\$953,609	4,434	\$891,964	4,305	\$61,645	7	129	3
North American	\$656,884	2,769	\$581,403	2,483	\$75,481	13	286	12
Offshore	296,725	1,665	310,561	1,822	(13,836)	(4)	(157)	(9)
	\$953,609	4,434	\$891,964	4,305	\$61,645	7	129	3

The acquired Geismar operation increased P₂O₅ production, liquid sales and industrial sales.

Gross margin for phosphate was \$194.4 million (1996 – \$191.3 million) or 33 percent of consolidated gross margin.

For 1997, North American phosphate net sales revenue accounted for 69 percent (1996 – 65 percent) of total phosphate net sales revenue. In 1997, 61 percent (1996 – 57 percent) of the Company's North American phosphate net sales revenue was earned from liquid and solid phosphate products, which represented 68 percent (1996 – 63 percent) of its North American phosphate sales volumes. Offshore sales accounted for 31 percent (1996 – 35 percent) of total phosphate net sales revenue for 1997 and 38 percent (1996 – 42 percent) of volumes. In 1997, 92 percent (1996 – 92 percent) of the Company's offshore phosphate net sales revenue was earned from liquid and solid phosphate products, which represented 93 percent (1996 – 85 percent) of its offshore phosphate sales volumes.

Solid phosphates (substantially all DAP) accounted for 38 percent (1996 – 43 percent) of the total phosphate net sales revenue. Compared to 1996, the Company received higher prices for most of its phosphate products (with the exception of DAP). Liquid phosphate prices increased by 5 percent and sales volumes increased by 20 percent, resulting in additional net sales revenue of \$69.3 million. Solid phosphate prices declined 7 percent as compared to 1996. However, this was partially offset by an increase in volumes of 2 percent, resulting in a reduction in net sales revenue of \$16.7 million.

North American net sales revenue was 92 percent of total feed supplements and industrial products in 1997 (1996 – 93 percent). Feed supplement prices increased 6 percent and volumes decreased 3 percent as compared to 1996. This resulted in additional net sales revenue of \$4.9 million. Industrial product prices increased by 2 percent while sales volumes increased by 9 percent. The result was additional net sales revenue of \$8.9 million. Gross margin provided by feed and industrial products increased by 19 percent over the previous year.

NITROGEN REVENUE

	1997 Sales		1996 Sales	
	\$000's	Tonnes (000's)	\$000's	Tonnes (000's)
Ammonia	\$183,840	1,061	\$ –	–
Urea	203,092	1,226	–	–
Nitrogen solutions	161,149	1,719	–	–
Other nitrogen products	118,472	894	–	–
	666,553	4,900	–	–
Purchased products	201,600	1,138	108,708	535
	\$868,153	6,038	\$108,708	535
North American	\$798,016	5,544	\$108,708	535
Offshore	70,137	494	–	–
	\$868,153	6,038	\$108,708	535

Arcadian was acquired in March 1997. North American net sales revenue accounted for 92 percent of the total nitrogen net sales revenue. Gross margin for nitrogen products was \$133.2 million or 23 percent of consolidated gross margin.

Limited imports of urea into China resulted in pricing pressures throughout the world. Ammonia prices have declined since the acquisition, but results were supported by the Company's strategic plant locations in North America and its favorable gas contracts in Trinidad.

COST OF GOODS SOLD

	1997	1996	Increase (Decrease)	% Change
Potash production (KCl) tonnage (000's)	6,483	5,782	701	12
Phosphate production (P ₂ O ₅) tonnage (000's)	2,282	2,096	186	9
Nitrogen production (N) tonnage (000's)	2,349	–	2,349	

Potash unit cost of sales decreased marginally in 1997 compared to 1996, due primarily to higher production volumes and fewer shutdown weeks.

Overall, phosphate unit cost of sales increased by 5 percent. This consisted of increases of 8 percent and 5 percent in the unit cost of sales of liquid phosphates and industrial products, respectively, partially offset by a decrease of 2 percent for feed supplements. These increased costs were primarily caused by increased rock costs as a result of excessive moisture in the overburden at Aurora. The unit cost of sales of solid phosphates remained unchanged during 1997. The input cost of sulphur increased and ammonia decreased as compared to 1996.

PCS Nitrogen, through its natural gas hedging program and favorable gas contracts in Trinidad, kept its per unit natural gas cost relatively flat on a year-over-year basis.

Depreciation and amortization expense for 1997 was \$170.0 million compared to \$90.1 million in 1996, an increase of \$79.9 million or 89 percent. The increase was largely attributable to \$69.0 million additional depreciation and amortization from the acquired nitrogen operations.

SELLING AND ADMINISTRATIVE

Selling and administrative expenses for 1997 were \$99.7 million as compared to \$60.1 million in 1996, an increase of \$39.6 million. The increase was primarily attributable to the acquisition of Arcadian (\$31.6 million including amortization of goodwill of \$12.2 million) and to general increases in supplies, compensation and benefits.

PROVINCIAL MINING AND OTHER TAXES

Saskatchewan's Potash Production Tax is comprised of a base tax per tonne of product sold and an additional tax based on mine-by-mine profits. The New Brunswick division and the Saskatchewan divisions pay a provincial Crown royalty, which is accounted for in cost of goods sold.

For 1997, provincial mining and other taxes were \$70.3 million as compared to \$40.2 million in 1996, an increase of \$30.1 million. Potash production tax was \$53.5 million compared to \$27.5 million in 1996, an increase of \$26.0 million. The increased sales volumes in 1997 over 1996 have served, in part, to increase these taxes. In addition, increased prices for potash and the resulting increased profit per tonne, combined with the full utilization of certain provincial resource tax deductions carried forward from prior years, resulted in most Saskatchewan mines reaching the top marginal profits tax rate of 50 percent in 1997.

Saskatchewan corporate capital tax was \$16.8 million in 1997 compared to \$12.7 million in 1996, an increase of \$4.1 million. Various other payments to the Province in the form of royalties and taxes totalled \$12.4 million in 1997 and \$10.2 million in 1996, and are reflected in cost of goods sold.

INTEREST EXPENSE

For 1997, interest expense was \$81.4 million as compared to \$46.8 million in 1996. The weighted average long-term debt outstanding in 1997 was \$1.1 billion (1996 – \$0.7 billion). The increase was due to the financing of the Arcadian acquisition. The weighted average interest rate on the long-term debt outstanding increased to 6.1 percent in 1997 from 5.8 percent in 1996. The increase was primarily due to the higher interest rate on the ten-year notes issued in June 1997.

INCOME TAXES

Income taxes for the year were \$69.1 million, compared to \$43.7 million in 1996, an increase of \$25.4 million. The increase reflects higher taxable earnings relating to the Company's phosphate operations and taxes relating to the acquired nitrogen operations.

PCS and certain subsidiaries are subject to federal and provincial income taxes in Canada. By virtue of deductions with respect to non-capital losses carried forward, capital cost allowance, Canadian development expense, and earned depletion allowance, such taxes have not yet become payable. However, PCS is subject to the Large Corporations Tax. In 1997, PCS began to book a deferred tax provision at the effective rate of 35 percent since the tax pools plus the non-capital losses carried forward are less than the book value of the assets.

The Company's subsidiaries which operate in the United States are subject to US federal and state income taxes. By virtue of certain income tax deductions available, these subsidiaries are not currently subject to regular cash income tax. However, they are subject to the Alternative Minimum Tax, which may be carried forward indefinitely as a credit to be applied against future regular income tax liabilities. In addition, the Company is subject to United States withholding taxes on certain payments received from its US subsidiaries.

The Company's nitrogen subsidiaries which operate in Trinidad are subject to Trinidad taxes.

The effective consolidated tax rate for 1997 was 19 percent (1996 – 17 percent) of income before income taxes of which 13 percentage points (1996 – 8 percentage points) represented cash income taxes and 6 percentage points (1996 – 9 percentage points) represented deferred income taxes.

ANALYSIS OF FINANCIAL CONDITION AND CASH FLOW

The following table summarizes certain of the Company's financial ratios as calculated from the consolidated financial statements:

Year Ended December 31	1998	1997	Increase (Decrease)	% Change
Quick Ratio	.83	.79	.04	5
Current Ratio	1.74	1.62	.12	7
Shareholders' Equity to Total Assets	.54	.50	.04	8
Return on Shareholders' Equity	11%	13%	(2%)	(15)
Book Value per Share	\$45.24	\$41.34	\$3.90	9
Asset Turnover	51%	53%	(2%)	(4)
Return on Investment	9%	14%	(5%)	(36)
Long-term Debt to Equity	.38:1	.51:1	(.13)	(25)

Cash provided by operating activities for 1998 was \$578.0 million (1997 – \$467.8 million). The increase of \$110.2 million was primarily due to increases in non-cash expenses charged against operating income (primarily depreciation and amortization and deferred income taxes) and positive cash flow from operating working capital.

Cash used in investing activities was \$243.3 million (1997 – \$1,215.4 million). Included in the 1997 amount is \$1,048.3 million that relates to the acquisition of shares of Arcadian. The 1998 amount includes the purchase of 9 percent of Israel Chemicals Ltd. in the amount of \$92.2 million and the purchase of rail

cars under a sale/leaseback transaction in the amount of \$19.4 million. Proceeds from disposal of property, plant and equipment include sale proceeds of \$27.9 million related to the sale/leaseback transaction.

Cash used in financing activities was \$275.5 million, primarily to repay long-term debt and to pay dividends. In 1997, financing activities were a source of \$762.7 million of cash, primarily due to borrowings to finance the purchase of Arcadian. The Company paid dividends of \$51.7 million in 1998 (1997 – \$55.3 million). The reduction in dividends paid was due solely to the change in the exchange rate of the Canadian dollar as compared to the US dollar rather than a change in dividend policy.

The Company's capital expenditures were \$190.2 million in 1998 and are expected to be approximately \$135.0 million in 1999.

The Company has a syndicated credit facility which provides for unsecured advances of up to \$925.0 million of which \$488.0 million was outstanding at December 31, 1998. In addition, the Company has short-term lines of credit for up to \$290.0 million in borrowings, of which \$72.1 million was outstanding at December 31, 1998 and \$40.4 million was utilized for letters of credit. The Company may also issue up to an additional \$600.0 million in unsecured debt securities under its existing shelf registration statement.

The Company believes that internally generated cash flow, as supplemented by borrowing from existing financing sources, will be sufficient to meet the Company's anticipated capital expenditure and other cash requirements, exclusive of any possible acquisitions, in 1999.

RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS

The Company's nitrogen operations are significantly affected by the price of natural gas. The Company employs derivative commodity instruments related to a portion of its natural gas requirements (primarily futures, swaps and options) for the purpose of managing its exposure to commodity price risk in the purchase of natural gas. Changes in the market value of these derivative instruments have a high correlation to changes in the spot price of natural gas. Gains or losses arising from settled hedging transactions are deferred as a component of inventory until the product containing the hedged item is sold. Changes in the market value of open hedging transactions are not recognized as they generally relate to changes in the spot price of anticipated natural gas purchases.

A sensitivity analysis has been prepared to estimate the Company's market risk exposure arising from derivative commodity instruments. The fair value of such instruments is calculated by valuing each position using quoted market prices. Market risk is estimated as the potential loss in fair value resulting from a hypothetical 10 percent adverse change in such prices. The results of this analysis indicate that as of December 31, 1998, the Company's estimated derivative commodity instruments market risk exposure was \$34.7 million (1997 – \$22.5 million). Actual results may differ from the estimate. Changes in the fair value of such derivative instruments, with maturities in 1999 through 2003, will generally relate to changes in the spot price of anticipated natural gas purchases.

The Company also enters into forward foreign exchange contracts for the sole purpose of limiting its exposure to exchange rate fluctuations relating to certain trade accounts. Gains or losses resulting from foreign exchange contracts are recognized at the time that the contracts are entered into and are included in Other Income.

ENVIRONMENTAL

The Company is subject to various environmental laws and regulations throughout the United States, Canada and Trinidad. Expenditures relating to compliance with these environmental laws are considered to be part of the normal course of business. Future laws and regulations or changes to existing laws and their impact cannot be predicted. Capital expenditures in the environmental area in 1998 totalled \$14.0 million (1997 – \$15.4 million; 1996 – \$8.9 million) while \$83.4 million (1997 – \$66.9 million; 1996 – \$63.0 million) was incurred as environmental operating expense. Expenditures in 1999 are expected to be of a similar magnitude for existing operations.

YEAR 2000

The year 2000 poses a risk that computer systems, or devices containing microchips, will generate erroneous results if the year 2000 is stored as 00. The Year 2000 problem, if not remedied, could result in a system failure or miscalculations causing what are expected to be temporary disruptions of operations, including, among other things, an inability to process transactions, send invoices or engage

in similar normal business activities. The Company defines Year 2000 compliance as computer systems or devices which will function accurately before, on, and after January 1, 2000 without business or operational interruptions, or repercussions, due to any date-related functions.

The Company has a Year 2000 committee composed of executive and senior management to oversee and direct efforts to identify and resolve Year 2000 issues. The Company anticipated Year 2000 requirements for its corporate, potash and sales administrative systems in the early 1990s by implementing four-digit century standards. Testing to confirm compliance is complete in these areas. Based on testing and investigations to date, the Company believes that these systems will not give rise to material Year 2000 problems. Phosphate and nitrogen subsidiaries are conducting routine compliant upgrades of their packaged administrative systems. The last such upgrade is expected to be completed by mid-1999.

The majority of the Company's production locations' operational systems are scheduled for compliance in the first quarter of 1999. Compliance for the remaining plants is scheduled for completion during routine maintenance shutdowns during 1999.

The Company has formally communicated with critical customers, suppliers and other external parties to determine the extent to which the Company may be vulnerable to such parties' failure to resolve their Year 2000 issues. Written assurances received to date have not identified any matters which are expected to materially affect the Company. However, the effect, if any, on the Company's results of operations or financial condition from the failure of these entities to be Year 2000 ready is uncertain.

The Company is primarily utilizing internal resources to identify, upgrade and test its systems for Year 2000 compliance. This has not deferred any other material projects. The Company anticipates that these efforts will be completed by mid-1999 and that the total estimated costs will approximate \$2.0 million. To date, \$0.8 million has been expended. These costs have been and are expected to continue to be financed from internally generated cash flows.

At this time, the Company believes its most reasonably likely worst case scenario is that there may be temporary disruptions of power to certain of its plants and/or that there may be temporary disruptions of certain transportation services. In either case, the Company does not believe that these disruptions would have a material adverse effect on its results of operations or financial condition. This is principally due to the fact that inventory levels would be building in anticipation of the spring fertilizer season; fertilizer sales are seasonally low at the beginning of the year and the disruptions, if any, would be expected to be temporary.

The Company has not identified the need for formal contingency plans at this time but continues to monitor third parties and evaluate the circumstances in which such plans may be appropriate.

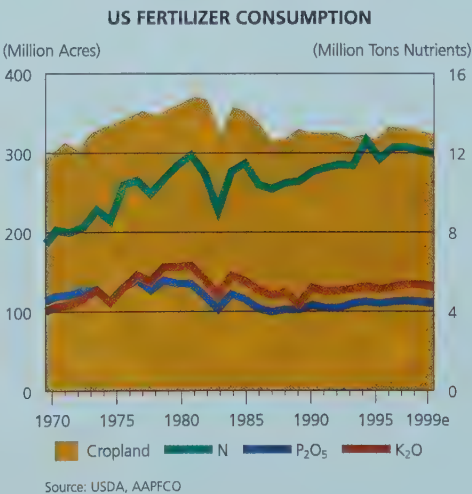
OUTLOOK

The rising world population and the demand for more food and better diets, with meat as a protein source, will continue to drive consumption of fertilizers over the long term. Over the short term, increased fertilizer usage will be required to replenish world grain stocks which remain low. Governments around the world are placing priority on fertilizer purchases to increase food production. While the consumption trend line is expected to continue to climb over the long term, there will be, at times, fluctuations in demand.

North American fertilizer demand is generally considered mature but is expected to fluctuate from year to year, as a function of acres planted and application rates per acre which are influenced by crop prices and weather. US farmers are projected to continue to commit more than 150 million acres to corn and soybeans in 1999. These crops are among the largest users of fertilizers. In addition, US net cash farm income for 1998 is expected to be the second highest on record as the result of cash received under a US government program. With large projected acreages for corn and soybeans, it is expected that demand for fertilizer will remain strong.

The Company sells a significant amount of potash and phosphate in the offshore markets. To date, the currency devaluations and financial difficulties in Asian countries have not significantly affected these sales. These countries purchase fertilizer to grow cash crops for export and to grow food for internal use. However, the persistence of the currency devaluations and financial difficulties could affect the growth trend.

The Company also sells product in the non-fertilizer markets which are affected by domestic economic growth. The outlook for domestic economic growth should translate into increased demand for these upgraded products.



In the US market, which is considered mature, nitrogen consumption has been increasing more than potash and phosphate. All are affected by the acreage planted.

The effect of such anticipated increase in demand for fertilizer and non-fertilizer products will be offset to the degree that additional capacity comes on stream.

Domestic potash sales volumes are expected to grow in 1999 while offshore sales volumes are expected to increase marginally. Canpotex recently sold a shipment to India — its first there in six years. In India, subsidies remain an important factor and buyers have been purchasing product based on expectations that subsidies will continue. In China, the fertilizer quotas have been established for 1999. In January 1999, Canpotex reached agreement with China for new shipments at a higher price. Proposed increases in the Company's prices in the domestic market will be fully tested during the spring season.

PCS continues to operate its potash mines by matching production to sales demand. Shutdowns for inventory correction will influence potash production costs on a quarter-over-quarter comparative basis. It is expected that the number of such shutdowns will exceed the 33 weeks of shutdowns incurred in 1998. Natural gas costs are increasing in Western Canada. The combination of higher gas costs and increased shutdown weeks is expected to increase production costs somewhat.

The severe decrease of ammonia prices is expected to favorably affect phosphate processing input costs on a year-over-year basis. PCS can use up to one-quarter of the ammonia it produces and sells as ammonia at its own phosphate plants. However, it is expected that there will be increases in the cost of sulphur and higher rock costs at Aurora due to difficult conditions in the ore body currently being mined. These conditions are expected to intensify in early 1999 and continue for approximately two years until mining reaches an area anticipated to have more advantageous ore conditions.

In the near term, prices for liquid and solid phosphates are expected to remain steady as supply and demand are in reasonably good balance. However, 1999 sales volumes may be down somewhat from 1998 due to the difficult rock conditions affecting 1999 P₂O₅ production volumes. Increased competition in industrial products and feed supplements will likely affect prices for these products.

Market prices for nitrogen products are expected to continue under pressure. 1999 gross margin is expected to be lower than in 1998. The urea market is influenced by China which, early in 1997, stopped importing urea, thereby having a negative effect on prices. Chinese buyers remain inactive and there are no indications as to when they will return to the market.

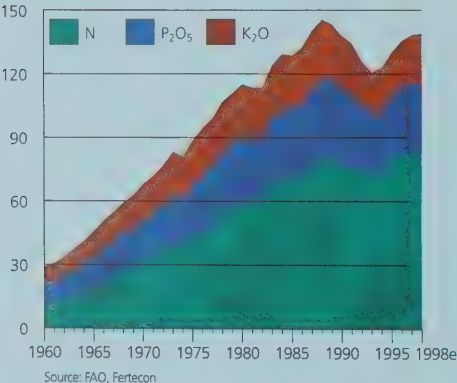
The Company manages its natural gas costs through a combination of fixed price contracts, hedges and the Trinidad gas contracts. As the most flexible producer, PCS will continue to allocate its nitrogen and phosphate feed stock to production of the products with the best margins.

Capital expenditures in 1999 are expected to be approximately \$135.0 million.

The effective consolidated income tax rate on income before taxes is expected to increase slightly.

The narrative included under this Management's Discussion and Analysis of Financial Condition and Results of Operations has been prepared on a nutrient basis (the phosphate products produced at Geismar are included with phosphate data rather than nitrogen) rather than a subsidiary or business segment basis and with reference to the consolidated financial statements reported under accounting principles generally accepted in Canada.

WORLD FERTILIZER CONSUMPTION
(Million Tonnes Nutrients)



Peaks and dips are to be expected, but the trend line for fertilizer use is rising.

FORWARD-LOOKING STATEMENTS

Certain statements in this annual report and this Management's Discussion and Analysis of Financial Condition and Results of Operations, including those in the "Outlook" section, relating to the period after December 31, 1998, are forward-looking statements subject to significant uncertainties. A number of factors could cause actual results to differ materially from those expressed in the forward-looking statements, including, but not limited to, fluctuation in supply and demand in fertilizer, sulphur and petrochemical markets; changes in competitive pressures including pricing pressures; changes in capital markets; changes in currency and exchange rates; unexpected geological or environmental conditions; imprecision in reserve estimates; the outcome of legal proceedings; and changes in government policy. The Company sells to a diverse group of customers both by geography and by end product. Market conditions will vary on a year-over-year basis and sales can be expected to shift from one period to another.

Selected Ten-Year Data
(For the Years Ended December 31)

Financial Data (US\$ Millions)	1998	1997 ⁽⁵⁾	1996	1995 ⁽⁴⁾	1994 ⁽¹⁾	1993 ⁽³⁾	1992	1991	1990	1989 ⁽²⁾
Net Sales	2,307.8	2,325.9	1,403.9	856.1	363.1	212.2	214.1	206.8	189.9	221.6
Operating Income	446.1	447.6	299.5	224.2	98.5	56.9	50.6	39.1	34.6	68.4
Net Income	261.0	297.1	209.0	159.5	91.2	44.7	39.8	31.3	17.3	57.7
Net Income per Share (Actual Dollars)	4.82	5.68	4.59	3.68	2.12	1.13	1.03	0.81	0.47	1.65
Dividends per Share (Actual Dollars)	0.96	1.03	1.06	1.06	0.77	0.53	0.51	0.51	0.51	0.13
Cash Provided by Operating Activities	578.0	467.8	296.2	233.5	150.7	49.8	57.4	53.8	66.1	72.4
Working Capital	329.2	281.7	278.8	136.1	103.3	37.0	70.9	47.4	25.7	16.4
Total Assets	4,534.3	4,427.6	2,494.4	2,581.8	1,027.8	1,036.4	915.0	898.8	914.8	915.5
Total Long-Term Debt	933.3	1,130.0	620.0	714.5	2.0	20.1	48.9	54.4	62.6	67.8
Shareholders' Equity	2,453.8	2,227.9	1,405.5	1,241.9	964.3	903.7	809.5	788.9	777.3	745.2

Operating Data (Thousands)										
Employees at Year-End (Actual Numbers)	5,744	5,751	4,490	4,579	1,781	1,818	1,415	1,227	1,242	1,256
Potash Production (KCl) Tonnage	6,995	6,483	5,782	6,071	5,298	3,902	3,850	4,030	3,464	4,257
Phosphate Production (P ₂ O ₅) Tonnage	2,363	2,282	2,096	1,008	—	—	—	—	—	—
Nitrogen Production (N) Tonnage	3,121	2,349	—	—	—	—	—	—	—	—
Potash Sales – KCl Tonnes	6,283	6,640	5,612	5,848	5,569	3,795	3,737	3,909	3,725	4,018
Phosphate Sales – Product Tonnes	4,627	4,434	4,305	2,206	—	—	—	—	—	—
Nitrogen Sales – Product Tonnes	6,679	6,038	535	115	—	—	—	—	—	—

Net Sales (US\$ Millions)										
Potash	545.5	504.2	403.2	421.0	363.1	212.2	214.1	206.8	189.9	221.6
Phosphate	1,011.0	953.6	892.0	412.1	—	—	—	—	—	—
Nitrogen	751.3	868.1	108.7	23.0	—	—	—	—	—	—
Total Net Sales	2,307.8	2,325.9	1,403.9	856.1	363.1	212.2	214.1	206.8	189.9	221.6

⁽¹⁾ The financial statements of the Company for 1994 and prior years have been restated to US dollars in accordance with accounting principles generally accepted in Canada using the Translation of Convenience Method. The Canadian dollar amounts for these periods have been converted to US dollars at the exchange rate of US\$1.00 = CDN\$1.4028.

⁽²⁾ In November 1989, the Company was privatized. Subsequent results reflect the privatization and associated reorganization.

⁽³⁾ Data for 1993 and thereafter reflect the acquisition of Potash Company of America assets on October 7, 1993.

⁽⁴⁾ Data for 1995 and thereafter reflect the acquisition of Texasgulf Inc. on April 10, 1995 and the acquisition of White Springs Agricultural Chemicals, Inc. on October 31, 1995.

⁽⁵⁾ Data for 1997 and thereafter reflect the acquisition of Arcadian Corporation on March 6, 1997.

Quarterly Results (Thousands)	98 Q1	98 Q2	98 Q3	98 Q4	97 Q1	97 Q2	97 Q3	97 Q4
Potash Production – KCl Tonnes	1,996	2,046	1,259	1,694	1,653	1,687	1,297	1,846
Phosphate Production – P ₂ O ₅ Tonnes	561	604	585	613	521	600	599	562
Nitrogen Production – N Tonnes	759	777	781	804	240	724	722	663
Net Sales (\$)	583,812	660,442	521,368	542,141	464,834	676,648	573,773	610,674
Operating Income (\$)	109,790	146,909	95,575	93,782	90,513	154,714	108,851	93,562
Net Income (\$)	63,009	89,117	54,704	54,173	56,365	96,980	71,418	72,375
Net Income per Share (Actual Dollars) (\$)	1.17	1.64	1.01	1.00	1.18	1.81	1.33	1.35

The consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in Canada. These principles differ in some respects from those applicable in the United States (see Note 27 to the Company's consolidated financial statements).

Notes to Selected Ten-Year Data and Quarterly Results:

- There were no extraordinary items nor were there any discontinued operations in any of the accounting periods.
- Fully diluted net income per share did not differ materially from net income per share in any of the accounting periods.
- Net income per share for each quarter has been computed based on the weighted average number of shares issued and outstanding during the respective quarter; therefore, quarterly amounts may not add to the annual total.

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements and related financial information are the responsibility of PCS management and have been prepared in accordance with generally accepted accounting principles and include amounts based on estimates and judgments. Financial information included elsewhere in this report is consistent with the consolidated financial statements.

To meet management's responsibility for financial reporting and to obtain reasonable assurance for the integrity and reliability of the financial reports, the Company's accounting and internal control systems are designed to safeguard assets and to properly record transactions and events. Policies and procedures are maintained to support the accounting and internal control systems.

Our independent auditors, Deloitte & Touche LLP, provide an objective, independent audit of the consolidated financial statements. Their report for 1998 is included.

The Board of Directors, through the audit committee composed exclusively of outside directors, meets regularly with the independent auditors — both jointly and separately — to review significant accounting, reporting and internal control matters. The audit committee also recommends to the Board the independent auditors to be proposed to the shareholders for appointment at the annual meeting. Interim consolidated financial statements are reviewed by the audit committee prior to release to shareholders.

The consolidated financial statements are approved by the Board of Directors on the recommendation of the audit committee.



C. E. Childers
Chairman and
Chief Executive Officer
February 10, 1999



B. E. Humphreys
Senior Vice President
Finance and Treasurer

Auditors' Report

To the Shareholders of Potash Corporation of Saskatchewan Inc.

We have audited the consolidated statements of financial position of Potash Corporation of Saskatchewan Inc. as at December 31, 1998 and 1997 and the consolidated statements of income and retained earnings and of cash flow for each of the three years in the period ended December 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1998 and 1997, and the results of its operations and the changes in its financial position for each of the three years in the period ended December 31, 1998 in accordance with accounting principles generally accepted in Canada.

Saskatoon, Saskatchewan
February 10, 1999



Chartered Accountants

Consolidated Statements of Financial Position

As at December 31

(in thousands of US dollars)

	1998	1997
Assets		
Current Assets		
Cash and cash equivalents	\$ 67,971	\$ 8,756
Accounts receivable (Note 5)	302,974	351,154
Inventories (Note 6)	364,397	353,425
Prepaid expenses	38,839	21,131
	774,181	734,466
Property, plant and equipment (Note 7)	3,003,443	2,995,625
Goodwill (Note 8)	559,621	574,296
Other assets (Note 9)	197,012	123,205
	\$4,534,257	\$4,427,592
Liabilities		
Current Liabilities		
Short-term debt (Note 10)	\$ 94,940	\$ 101,928
Accounts payable and accrued charges (Note 11)	349,684	348,103
Current portion of long-term debt (Note 12)	386	2,740
	445,010	452,771
Long-term debt (Note 12)	933,294	1,129,964
Deferred income tax liability (Note 20)	417,853	338,431
Accrued post-retirement/post-employment benefits (Note 14)	131,179	123,418
Accrued reclamation costs (Note 15)	129,399	139,105
Other non-current liabilities and deferred credits	23,761	16,012
	2,080,496	2,199,701
Contingencies (Note 23)		
Shareholders' Equity		
Share Capital (Note 16)	1,227,599	1,211,049
Unlimited authorization of common shares without par value; issued and outstanding 54,243,795 and 53,896,186 shares in 1998 and 1997, respectively		
Unlimited authorization of first preferred shares; none outstanding		
Contributed Surplus	336,486	336,486
Retained Earnings	889,676	680,356
	2,453,761	2,227,891
	\$4,534,257	\$4,427,592

(See Notes to the Consolidated Financial Statements)

Approved by the Board,


Director


Director

Consolidated Statements of Income and Retained Earnings

For the Years Ended December 31

(in thousands of US dollars)

	1998	1997	1996
Net sales (Note 17)	\$2,307,763	\$2,325,929	\$1,403,868
Cost of goods sold	1,698,416	1,740,758	1,019,894
Gross Margin	609,347	585,171	383,974
Selling and administrative	116,012	99,663	60,142
Provincial mining and other taxes (Note 18)	80,088	70,312	40,197
Other income	(32,809)	(32,444)	(15,857)
	163,291	137,531	84,482
Operating Income	446,056	447,640	299,492
Interest Expense (Note 19)	67,574	81,439	46,761
Income Before Income Taxes	378,482	366,201	252,731
Income Taxes (Note 20)	117,479	69,063	43,695
Net Income	261,003	297,138	209,036
Retained Earnings, Beginning of Year	680,356	438,526	277,689
Dividends	(51,683)	(55,308)	(48,199)
Retained Earnings, End of Year	\$ 889,676	\$ 680,356	\$ 438,526
Net Income per Share (Note 21)	\$4.82	\$5.68	\$4.59
Dividends per Share	\$0.96	\$1.03	\$1.06

(See Notes to the Consolidated Financial Statements)

Consolidated Statements of Cash Flow

For the Years Ended December 31

(in thousands of US dollars)

	1998	1997	1996
Operating Activities			
Net income	\$ 261,003	\$ 297,138	\$ 209,036
Items not affecting cash			
Depreciation and amortization	190,880	170,002	90,125
(Gain) loss on disposal of property, plant and equipment	(99)	(4,739)	2,152
Provision for deferred income tax	97,203	34,491	23,737
Provision for post-retirement/ post-employment benefits	6,848	6,166	5,890
	555,835	503,058	330,940
Changes in non-cash operating working capital			
Accounts receivable	48,751	23,470	(7,400)
Inventories	(7,859)	19,873	2,493
Prepaid expenses	(16,603)	3,736	(1,393)
Accounts payable and accrued charges	(2,477)	(68,623)	(19,214)
Accrued reclamation costs	(7,436)	(7,407)	(5,021)
Other non-current liabilities and deferred credits	7,749	(6,286)	(4,219)
Cash provided by operating activities	577,960	467,821	296,186
Investing Activities			
Additions to property, plant and equipment	(190,155)	(160,337)	(58,939)
Acquisition of Arcadian Corporation	—	(1,048,263)	—
Proceeds from disposal of property, plant and equipment	31,926	15,276	22,716
Additions to other assets	(85,066)	(22,091)	(2,819)
Cash used in investing activities	(243,295)	(1,215,415)	(39,042)
Cash (deficiency) before financing activities	334,665	(747,594)	257,144
Financing Activities			
Proceeds from (repayment of) long-term obligations	(233,329)	510,021	(258,556)
Proceeds from (repayment of) short-term debt	(6,988)	101,928	—
Repayment of Senior Notes	—	(374,526)	—
Dividends	(51,683)	(55,308)	(48,199)
Issuance of shares	16,550	580,565	2,784
Cash (used in) provided by financing activities	(275,450)	762,680	(303,971)
Increase (Decrease) in Cash and Cash Equivalents	59,215	15,086	(46,827)
Cash and Cash Equivalents (Bank Indebtedness), Beginning of Year	8,756	(6,330)	40,497
Cash and Cash Equivalents (Bank Indebtedness), End of Year	\$ 67,971	\$ 8,756	\$ (6,330)
Supplemental cash flow disclosure			
Interest paid	\$ 68,419	\$ 84,365	\$ 42,901
Income taxes paid	\$ 19,228	\$ 41,252	\$ 32,914

(See Notes to the Consolidated Financial Statements)

1. Description of Business

Potash Corporation of Saskatchewan Inc. ("PCS") and its operating subsidiaries (the "Company" except to the extent the context otherwise requires) form an integrated fertilizer and related industrial and feed products company. The Company's potash producing assets include five mines and mills and mining rights to potash reserves at a sixth location all in the Province of Saskatchewan, one mine and two mills located in the Province of New Brunswick and one mine and mill in the State of Utah. The Company's phosphate producing assets include a vertically-integrated phosphate mine and processing plant located in the State of North Carolina, phosphate feed plants in six states, two industrial phosphoric acid plants owned in a joint venture carrying on business as Albright & Wilson Company, a mine and processing plant complexes in the State of Florida and a processing plant complex in the State of Louisiana. The Company's nitrogen producing assets include six domestic plants located in the states of Georgia, Iowa, Louisiana, Nebraska, Ohio and Tennessee and large-scale operations in Trinidad. The Company owns or leases in excess of 130 terminal and warehouse facilities strategically located in Canada and the United States, and services customers with a fleet of approximately 5,000 rail cars.

The Company sells potash from its Saskatchewan mines for use outside North America exclusively to Canpotex Limited ("Canpotex"). Canpotex, a potash export, sales and marketing company owned in equal shares by the three potash producers in the Province of Saskatchewan (including the Company), resells potash to offshore customers. PCS Sales (Canada) Inc. and PCS Sales (USA), Inc., wholly-owned subsidiaries of PCS, execute marketing and sales for the Company's potash, phosphate and nitrogen products in North America. PCS Sales (Canada) Inc. executes offshore marketing and sales for the Company's New Brunswick potash. PCS Sales (USA), Inc. executes offshore marketing and sales for the Company's nitrogen products. Phosphate Chemicals Export Association, Inc. ("PhosChem"), an unrelated phosphate export association established under United States law, is the principal vehicle through which the Company executes offshore marketing and sales for its phosphate fertilizers.

2. Significant Accounting Policies

Basis of Presentation

The Company's accounting policies are in accordance with accounting principles generally accepted in Canada ("Canadian GAAP"). These policies are consistent with accounting principles generally accepted in the United States ("US GAAP") in all material respects except as outlined in Note 27. The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The following policies are considered to be significant:

Principles of Consolidation

The consolidated financial statements include the accounts of PCS and its operating subsidiaries:

- PCS Sales (Canada) Inc.
 - PCS Sales (Iowa), Inc.
 - PCS Sales (Indiana), Inc.
 - Potash Corporation of Saskatchewan (Florida) Inc.
- PCS Sales (USA), Inc.
- Potash Corporation of Saskatchewan Transport Limited

2. Significant Accounting Policies (continued)

- PCS Phosphate Company, Inc.
 - Albright & Wilson Company (proportionately consolidated)
- White Springs Agricultural Chemicals, Inc. ("White Springs")
- PCS Nitrogen, Inc.
 - PCS Nitrogen Fertilizer, L.P.
 - PCS Nitrogen Ohio, L.P.
 - PCS Nitrogen Limited
 - PCS Nitrogen Fertilizer Limited
 - PCS Nitrogen Trinidad Limited
- PCS Cassidy Lake Company ("PCS Cassidy Lake")

All significant intercompany balances and transactions have been eliminated.

Cash Equivalents

Highly liquid investments with an original maturity of three months or less are considered to be cash equivalents.

Inventories

Inventories of finished product, raw materials and work in process are valued at the lower of cost and net realizable value. Cost for substantially all finished product, raw materials and work in process inventories is determined using the first in, first out (FIFO) method. Certain inventories of materials and supplies are valued at the lower of average cost and replacement cost and certain inventories of materials and supplies are valued at the lower of cost and market.

Prepaid Expenses

Prepaid expenses include prepaid freight which relates to product inventory stored at warehouse and terminal facilities which is invoiced to customers at the time of sale of the inventory.

Property, Plant and Equipment

Property, plant and equipment (which includes mine development costs) are carried at cost, except for mineral properties, which are carried at the lower of cost or fair value. Costs of additions, betterments, renewals and interest during construction are capitalized. The Company periodically reviews property, plant and equipment for indicators of potential impairment. Impairment would be measured by comparing book value against the estimated undiscounted future cash flows and any such impairment loss would be included in the statement of income.

Maintenance and repair expenditures which do not improve or extend productive life are expensed as incurred.

Depreciation and Amortization

Depreciation and amortization are provided for on a basis and at rates calculated to amortize the cost of the property, plant and equipment over their estimated useful lives. Depreciation and amortization rates for all mine assets (including mine development costs) and potash mills are determined using the units of production method based on estimates of proven and probable reserves. Other asset classes are depreciated or amortized on a straight-line basis as follows: land improvements 5 to 30 years, buildings and improvements 6 to 30 years and machinery and equipment 5 to 25 years.

Goodwill

Goodwill represents the excess of the purchase price and related costs over the value assigned to the net tangible assets of businesses acquired. Goodwill is being amortized on a straight-line basis over a period of forty years. The Company assesses the recoverability of this intangible asset based on estimated undiscounted future cash flows.

2. Significant Accounting Policies (continued)

Other Assets

Issue costs of long-term obligations are capitalized to deferred charges and are amortized to interest expense over the term of the related liability.

Preproduction costs are capitalized to deferred charges and represent costs incurred prior to obtaining commercial production at new milling facilities, net of revenue earned, and are amortized on a straight-line basis over ten years.

The costs of constructing bases for gypsum stacks and settling ponds are capitalized to deferred charges and are amortized on a straight-line basis over their estimated useful lives of three to five years.

Land held for sale is stated at the lower of cost or net realizable value.

Investments in which the Company exercises significant influence (but does not control) are accounted for using the equity method. Other investments are stated at cost.

Rotational plant maintenance costs, which consist primarily of planned major maintenance projects (also known as “turnarounds”), are capitalized when incurred and are amortized over the anticipated periods until the next scheduled rotational plant maintenance which ranges from two to four years.

Leases

Leases entered into are classified as either capital or operating leases. Leases that transfer substantially all of the benefits and risks of ownership of property to the Company are accounted for as capital leases. At the time a capital lease is entered into, an asset is recorded together with the related long-term obligation. Equipment acquired under capital leases is being depreciated on the same basis as other property, plant and equipment. Gains or losses resulting from sale-leaseback transactions are deferred and amortized in proportion to the amortization of the leased asset. Rental payments under operating leases are charged to expense as incurred.

Post-Employment and Post-Retirement Benefits

Accrual of the costs of the Company’s defined benefit pension plans are recorded monthly and adjusted annually based on actuaries’ reports. Pension expense includes the net of management’s best estimate of the cost of benefits provided, interest cost of projected benefits, return on pension plan assets and amortization of experience gains or losses and plan amendments. Adjustments arising from plan amendments, experience gains or losses and changes in assumptions are amortized on a straight-line basis over the expected average remaining service life of the employee group covered by the plan. Pension fund assets are valued at market values.

Accrual of the costs of providing certain post-retirement benefits, including medical and life insurance coverage, during the active service period of the employee is recorded monthly and adjusted annually as actuaries’ reports become available.

Accrual during periods of active employment, for the expected cost of certain benefits payable to former or inactive employees, is also recorded monthly and adjusted annually. These benefits include long-term disability income payments and related medical and insurance costs.

Environmental Costs

Environmental expenditures that relate to current operations are expensed or capitalized as appropriate. Expenditures that relate to existing conditions caused by past operations and that do not contribute to current or future revenue generation are expensed. Provisions for estimated costs are recorded when environmental remedial efforts are likely and the costs can be reasonably estimated.

2. Significant Accounting Policies (continued)

In determining the provisions, the Company uses the most current information available, including similar past experiences, available technology, regulations in effect, the timing of remediation and cost-sharing arrangements.

Foreign Exchange Transactions

PCS and its operating subsidiaries have the US dollar as their functional currency.

Canadian dollar operating transactions are translated to US dollars at the average exchange rate of the previous month. Trinidadian dollar operating transactions are translated to US dollars at the average exchange rate for the period. Monetary assets and liabilities are translated at period-end exchange rates. Non-monetary assets owned at December 31, 1994 have been translated under the Translation of Convenience Method at the December 31, 1994 year-end exchange rate of US\$1.00 = CDN\$1.4028. Additions subsequent to December 31, 1994 are translated at the exchange rate prevailing at the time of the transaction.

Foreign exchange gains or losses are included in other income.

Financial Instruments

The Company enters into forward exchange contracts and natural gas futures, swaps and option agreements to manage its exposure to exchange rate and commodity price fluctuations. These activities have been designated as hedging activities by the Company.

Gains or losses on foreign currency exchange contracts are recognized at the time that the contracts are entered into and are included in other income.

Gains or losses resulting from changes in the fair value of natural gas hedging transactions which have not yet been settled are not recognized as they generally relate to changes in the spot price of anticipated natural gas purchases. Gains or losses arising from settled hedging transactions are deferred as a component of inventory until the product containing the hedged item is sold, at which time both the natural gas purchase cost and the related hedging deferral are recorded as cost of sales.

The Company regularly evaluates its unrecognized or deferred gains and losses on these derivatives from a net realizable value of inventory perspective and establishes appropriate provisions, if necessary.

Revenue Recognition

Sales revenue is recognized when the product is shipped or a service is performed. Revenue is recorded based on the F.O.B. mine, plant, warehouse or terminal price. Transportation costs are recovered from the customer through sales pricing.

3. Change in Accounting Policy

The Company has adopted the provisions of section 3465 of the Canadian Institute of Chartered Accountants Handbook “Income Taxes”. Under this accounting policy, deferred income taxes are determined based on the difference between the financial reporting and tax bases of assets and liabilities using the enacted rates expected to apply to taxable income in the years in which those temporary differences are expected to reverse. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense for the period is the tax payable for the period and the change during the period in deferred tax assets and liabilities. The effect of this change on prior period financial statements and current period results is not significant.

4. Acquisition of Potash Company of Canada Limited

On March 3, 1998, the Company acquired all of the outstanding shares of Potash Company of Canada Limited for \$11,439. Concurrent with the closing, the name Potash Company of Canada Limited was changed to PCS Cassidy Lake Limited and this company was subsequently wound up. The acquisition has been accounted for by the purchase method of accounting and, accordingly, the results of operations of PCS Cassidy Lake have been included in the consolidated financial statements from March 4, 1998.

Due to the cessation of mining activities at PCS Cassidy Lake prior to acquisition, no pro forma information is being presented.

5. Accounts Receivable

	1998	1997
Trade accounts – Canpotex	\$ 30,738	\$ 43,097
– Other	247,956	283,485
Non-trade accounts	30,055	31,429
	308,749	358,011
Less allowance for doubtful accounts	5,775	6,857
	\$302,974	\$ 351,154

6. Inventories

	1998	1997
Finished product	\$176,908	\$ 162,181
Materials and supplies	106,797	107,518
Raw materials	58,471	59,689
Work in process	22,221	24,037
	\$364,397	\$ 353,425

7. Property, Plant and Equipment

	1998		
	Cost	Accumulated Depreciation and Amortization	Net Book Value
Land and improvements	\$ 206,230	\$ 23,318	\$ 182,912
Buildings and improvements	449,096	117,037	332,059
Machinery and equipment	3,034,648	631,476	2,403,172
Mine development costs	125,908	40,608	85,300
	\$3,815,882	\$812,439	\$3,003,443

	1997		
	Cost	Accumulated Depreciation and Amortization	Net Book Value
Land and improvements	\$ 196,004	\$ 20,697	\$ 175,307
Buildings and improvements	421,617	102,494	319,123
Machinery and equipment	2,914,119	501,228	2,412,891
Mine development costs	125,908	37,604	88,304
	\$3,657,648	\$662,023	\$2,995,625

Depreciation and amortization of property, plant and equipment included in Cost of Goods Sold and in Selling and Administrative was \$154,215 (1997 – \$141,241; 1996 – \$87,894).

8. Goodwill

	1998	1997
Cost	\$586,987	\$ 586,987
Accumulated amortization	27,366	12,691
	\$559,621	\$ 574,296

Amortization of goodwill included in Selling and Administrative was \$14,675 (1997 – \$12,238; 1996 – \$54).

9. Other Assets

	1998	1997
Deferred charges – net of accumulated amortization	\$ 41,268	\$ 32,080
Prepaid pension costs	11,169	13,143
Land held for sale	3,490	9,435
Investments, at equity	23,961	28,041
Investment, at cost	92,151	–
Rotational plant maintenance costs – net of accumulated amortization	21,103	36,137
Other	3,870	4,369
	\$197,012	\$123,205

Amortization of deferred charges and rotational plant maintenance costs included in Cost of Goods Sold and in Selling and Administrative was \$21,990 (1997 – \$16,523; 1996 – \$2,177).

10. Short-Term Debt

Short-term debt was \$94,940 at December 31, 1998 (1997 – \$101,928). The weighted average interest rate on this debt was 6.00% (1997 – 6.17%). The Company had available lines of credit for short-term financing (net of letters of credit of \$40,431) in the amount of \$177,451 at December 31, 1998 (1997 – \$205,000). The lines of credit are unsecured.

11. Accounts Payable and Accrued Charges

	1998	1997
Trade accounts	\$273,031	\$264,679
Accrued interest	6,758	3,927
Accrued payroll	14,429	17,561
Accrued integration	42,702	44,534
Income taxes	–	3,778
Dividends	12,764	13,624
	\$349,684	\$348,103

During the year the Company paid severance, relocation and other related costs in the amount of \$1,832 (1997 – \$6,394) which were charged against accrued integration.

12. Long-term Debt

	1998	1997
Syndicated Facilities led by the Bank of Nova Scotia	\$488,000	\$ 685,000
The Credit Facility provides for aggregate unsecured advances of \$925 million at an interest rate of LIBOR plus a maximum of 0.75% (actual at December 31, 1998 was 0.40%) or Base Rate Canada Loans, payable throughout the term of the Credit Facility. The actual weighted average interest rate at December 31, 1998 was 5.66%. The Credit Facility is renewable every 364 days with the consent of the lenders. No principal payments are required during the revolving period. If the Credit Facility is not renewed, it converts to a five-year term facility repayable in twenty quarterly instalments each equal to 1% of the principal outstanding on the conversion date and a final payment of the remaining principal amount due on the fifth anniversary of the conversion date. The weighted average interest rate on this obligation was 5.97% in 1998 (1997 – 5.96%).		
Industrial Revenue and Pollution Control Obligations	44,266	45,641
Adjustable Rate Industrial Revenue and Pollution Control Obligations with varying interest rates and with maturity dates ranging from 1999 to 2012. No sinking fund requirements prior to maturity. The Adjustable Rate Industrial Revenue and Pollution Control Obligations bear interest at rates ranging from 3.41% to 4.30%. The average interest rate on these obligations was 3.67% in 1998 (1997 – 3.92%). These loans are secured by bank letters of credit, most of which are guaranteed by the Company.		
Notes Payable	400,000	400,000
7.125% notes payable June 15, 2007. No sinking fund requirements prior to maturity. These notes were issued under a shelf registration statement covering up to \$1,000,000 of debt securities. The notes are unsecured.		
Obligations under capital leases	823	1,163
Other	591	900
	933,680	1,132,704
Less current maturities	386	2,740
	\$933,294	\$1,129,964

The fair values of all long-term obligations (except the Notes Payable whose approximate fair value at December 31, 1998 was \$419,000) are approximated by their face values.

Assuming that the Credit Facility will continue to be renewed, long-term debt at December 31, 1998 will mature as follows:

1999	\$ 386
2000	8,637
2001	–
2002	221
2003	2,637
Subsequent years	921,799
	<u>\$933,680</u>

13. Commitments

Lease Commitments

The Company has long-term lease agreements for buildings, port facilities, certain ammonia plants in Trinidad, equipment, ocean-going transportation vessels and rail cars (excluding mineral leases), the latest of which expires in 2017.

The Company has lease agreements with unaffiliated entities with respect to two ammonia plants constructed in Trinidad. The minimum annual lease payments under these agreements are approximately \$27,000. The initial terms of the leases (five years and seven years) are renewable for additional five-year terms subject to certain conditions. If the leases are not renewed or are otherwise terminated, the Company may be required to make residual termination payments of approximately 85% of the estimated \$384,000 costs of construction. The Company has an option to purchase the plants during the terms of the leases for prices approximating their fair market values at the date of exercise.

Future minimum lease payments under these operating leases will be approximately as follows:

1999	\$ 87,599
2000	80,502
2001	75,306
2002	72,160
2003	43,183
Subsequent years	108,452

13. Commitments (continued)

Rental expense for operating leases for the years ended December 31, 1998, 1997 and 1996 was \$86,633, \$65,252 and \$29,350, respectively.

Other Commitments

The Company has entered into raw material purchase commitments based upon market rates at the time of delivery through 2007 in the amount of approximately \$152,816, of which approximately \$77,420 relates to 1999.

The Company has entered into an agreement for the construction of a ship to be delivered in 1999 for ocean-going transportation of raw materials and finished products in the amount of \$37,000. The balance of the progress payments of \$14,800 is required in 1999.

BP Chemicals Inc. (“BPC”) operates the Lima plant on behalf of the Company pursuant to a contract providing for the reimbursement of expenses incurred by BPC in providing such operating services.

The Company’s Trinidad operations have entered into long-term natural gas contracts with a gas company in Trinidad. The contracts provide for prices which vary with ammonia market prices, escalating floor prices and minimum purchase quantities.

14. Post-Retirement/Post-Employment Benefits and Pension Plans

Canada

Substantially all employees of the Company are participants in either a defined contribution or a defined benefit pension plan. The Company's obligations under the defined contribution plans are limited to making regular payments to the plan to match contributions made by the employees for current services (to a maximum of 5.5% of salary).

The Company has established a supplemental retirement income plan for senior management which is unfunded and non-contributory and provides a supplementary pension benefit. The plan is provided for by charges to earnings sufficient to meet the projected benefit obligation.

United States

The Company has contributory and defined benefit pension plans that cover a substantial majority of its employees. Benefits are based on a combination of years of service and compensation levels, depending on the plan. Generally, contributions to the US plans are made to meet minimum funding requirements of the Employee Retirement Income Security Act of 1974 ("ERISA"). Assets of both US funded plans consist mainly of corporate equity, US government and corporate debt securities and units of participation in a collective short-term investment fund.

Trinidad

The Company has contributory defined benefit pension plans that cover a substantial majority of its employees. Benefits are based primarily on future service, with past service counting for purposes of vesting and eligibility for benefits. The plans' assets consist mainly of local government and other bonds, local mortgage and mortgage-backed securities, fixed income deposits and cash.

All Pension Plans

The components of net pension expense for the Company's pension plans, computed actuarially, were as follows:

	1998	1997	1996
Service cost for benefits earned during the year	\$11,669	\$ 9,827	\$ 7,337
Interest cost on projected benefit obligations	22,019	19,566	15,351
Expected return on plan assets	(29,900)	(25,234)	(35,551)
Net amortization and deferral	1,730	31	16,875
Net pension expense	\$ 5,518	\$ 4,190	\$ 4,012

Significant actuarial assumptions used in calculating the net pension expense for the Company's funded plans were as follows:

	1998	1997	1996
Discount rate	6.75%	7.50%	7.50%
Long-term rate of return on assets	9.00%	9.00%	9.00%
Rate of increase in compensation levels	5.00%	5.00%	5.00%

14. Post-Retirement/Post-Employment Benefits and Pension Plans (continued)

Other Post-Retirement Plans

The Company provides certain health care and life insurance benefits for retired employees. These plans are either contributory or non-contributory and contain certain cost-sharing features such as deductibles and coinsurance. These plans are unfunded and benefits are subject to change.

Although the Company prepares its financial statements under Canadian GAAP, it has continued to apply the treatment prescribed by SFAS No. 106 under US GAAP "Employers' Accounting for Postretirement Benefits Other Than Pensions" and SFAS No. 132 "Employers' Disclosures about Pensions and Other Postretirement Benefits". These statements require the accrual of the cost of providing other post-retirement benefits, including medical and life insurance coverage, during the active service period of the employee, and prescribe certain disclosure requirements.

The components of this expense, computed actuarially, were as follows:

	1998	1997	1996
Service cost for benefits earned during the year	\$ 2,903	\$ 2,701	\$2,233
Interest cost on projected benefit obligations	8,025	7,816	6,710
Net amortization and deferral	2	—	(11)
Net post-retirement expense	\$10,930	\$10,517	\$8,932

The significant actuarial assumptions used in determining post-retirement benefit expense were as follows:

	1998	1997	1996
Discount rate	6.80%	7.50%	7.50%
Health care cost trend rate	10.00% *	10.80%	11.60%

*Decreasing gradually to 6.00% in 2003 and thereafter.

If the health care cost trend rate was increased by 1.0 percent, the accumulated post-retirement benefit obligation and the aggregate of service and interest expense would have increased as follows:

	1998	1997	1996
Accumulated post-retirement benefit obligation	\$ 6,325	\$ 4,722	\$ 843
Aggregate of service and interest cost	573	490	77

The Company has applied Canadian GAAP to prepare its financial statements but continues to apply SFAS No. 112 under US GAAP "Employers' Accounting for Postemployment Benefits". This statement requires the Company to accrue, during periods of active employment, the expected cost of certain benefits payable to former or inactive employees. These benefits include long-term disability income payments and related medical and insurance costs.

The effect of these costs on income before income taxes was \$0, \$887 and \$486 for 1998, 1997 and 1996, respectively. As at December 31, 1998, the Company has a recorded liability for these costs of \$1,060 (1997 – \$1,873).

All of the Company's US employees may participate in defined contribution savings plans. These plans are subject to US federal tax limitations and provide for voluntary employee salary deduction contributions of up to 15 percent of salary and Company matching contributions of up to 5 percent of salary. The Company's matching contributions were \$3,844 and \$3,647 for 1998 and 1997, respectively.

14. Post-Retirement/Post-Employment Benefits and Pension Plans (continued)

The change in benefit obligations and change in plan assets for the above pension and post-retirement/post-employment plans were as follows:

	Pension		Post-retirement/ Post-employment	
	1998	1997	1998	1997
Change in Benefit Obligations				
Balance, beginning of year	\$306,948	\$221,134	\$ 119,701	\$ 96,511
Acquisitions	849	50,582	–	13,455
Canadian benefit obligations	11,156	–	–	–
Service cost	11,669	9,827	2,903	2,701
Interest cost	22,019	19,566	8,025	7,816
Participants' contributions	384	282	88	73
Actuarial gain	20,936	15,744	10,421	3,269
Amendments	–	2,842	–	–
Benefits paid	(13,859)	(13,029)	(4,812)	(4,124)
Balance, end of year	360,102	306,948	136,326	119,701
Change in Plan Assets				
Fair value, beginning of year	333,020	238,531	–	–
Acquisitions	–	51,984	–	–
Canadian plan assets	11,156	–	–	–
Actual return on plan assets	34,130	55,685	–	–
Employer contributions	4,080	2,806	4,092	4,051
Participants' contributions	1,110	987	720	73
Valuation allowance	(910)	(3,944)	–	(886)
Benefits paid	(13,859)	(13,029)	(4,812)	(3,238)
Fair value, end of year	368,727	333,020	–	–
Funded Status	8,625	26,072	(136,326)	(119,701)
Unrecognized Net Gain (Loss)	(11,244)	(26,526)	11,908	2,131
Unrecognized Prior Service Cost	2,270	3,245	–	–
Accrued Benefit Cost	(349)	2,791	(124,418)	(117,570)
Less current portion	2,187	–	3,630	6,378
	1,838	2,791	(120,788)	(111,192)
Add SFAS 112 liability	–	–	(1,060)	(1,874)
Accrued Post-retirement/Post-employment Benefits Asset (Liability)	\$ 1,838	\$ 2,791	\$(121,848)	\$(113,066)
Amounts recognized in the statements of financial position consist of:				
Long-term liability	\$ (9,331)	\$ (10,352)	\$(121,848)	\$(113,066)
Prepaid pension asset	11,169	13,143	–	–
	\$ 1,838	\$ 2,791	\$(121,848)	\$(113,066)

The aggregate pension accumulated benefit obligations and aggregate fair value of plan assets for pension plans with accumulated benefit obligations in excess of plan assets are as follows:

	Pension		Post-retirement/ Post-employment	
	1998	1997	1998	1997
Accumulated benefit obligations	\$100,213	\$ 76,274	\$ 121,848	\$ 113,066
Fair value of plan assets	\$ 76,698	\$ 61,695	–	–

15. Environmental Costs

Reclamation and Restoration Costs

Site restoration and reclamation costs have been accrued for various sites. At December 31, 1998, the Company has accrued \$29,078 (1997 – \$31,953) for the Aurora, North Carolina facility, \$66,412 (1997 – \$66,810) for the White Springs, Florida facility, \$27,377 (1997 – \$27,377) for the Moab, Utah facility, \$9,225 (1997 – \$12,965) for various sulphur facilities and \$5,038 for the Cassidy Lake facility. The idle sulphur facilities were part of the acquisition of Texasgulf Inc. and are undergoing dismantlement and environmental restoration efforts. The current portion of restoration and reclamation accrued in 1998 totalled \$7,731 (1997 – \$3,675). These amounts represent the Company's current estimate of potential site restoration and reclamation costs which were last assessed in December 1998. These expenditures are generally incurred over an extended period of time.

15. Environmental Costs (continued)

Annual environmental expenditures for reclamation and restoration during the years ended December 31, 1998, 1997 and 1996 were \$71,887, \$66,972 and \$69,905, respectively. Of the 1998 amount, \$62,958 (1997 – \$51,421; 1996 – \$53,507) was charged to operations, \$4,059 (1997 – \$4,948; 1996 – \$6,787) was capitalized and \$4,870 (1997 – \$10,603; 1996 – \$9,611) was charged against accrued reclamation costs.

Certain reclamation obligations are currently secured by a surety bond of approximately \$13,000.

Capping of Byproduct Gypsum Stacks

In 1993, the State of Florida passed certain legislation requiring companies to reduce the potential environmental hazards associated with accumulations of byproduct gypsum (gypsum stacks). The regulations implementing this legislation require companies to "cap" the gypsum stacks in order to reduce

15. Environmental Costs (continued)

seepage into the groundwater, when such stacks reach their design capacity (for the Company, in approximately 35 years), or after March 25, 2001 if groundwater standards are not being met. At December 31, 1998, a balance of \$35,350 (1997 – \$35,350) was included in accrued reclamation costs for this gypsum stack capping requirement. The obligation of White Springs regarding the gypsum stacks is guaranteed by PCS.

In North Carolina, on expiry of the mine's phosphate reserves, capping of the remaining gypsum stacks must comply with the laws in place at that time.

Other Environmental Costs

Other than reclamation, restoration and gypsum stack capping costs discussed above, no significant costs relating to existing conditions caused by past operations were incurred by the Company during 1998. At December 31, 1998, environmental provisions recorded by the Company, other than those related to reclamation, restoration and gypsum stack capping, as discussed above, were approximately \$3,800.

The Company's estimated operating expenses, other than reclamation, restoration and gypsum stack capping, relating to compliance with environmental laws and regulations governing ongoing operations were approximately \$20,473 for the year ended December 31, 1998 (1997 – \$15,520; 1996 – \$9,533). In addition, capital expenditures for other environmental compliance were approximately \$9,926 for the year ended December 31, 1998 (1997 – \$10,464; 1996 – \$2,123).

16. Share Capital

Authorized:

The Company is authorized to issue an unlimited number of common shares without par value and an unlimited number of first preferred shares. The first preferred shares may be issued in one or more series with rights and conditions to be determined by the Board of Directors.

Issued:	1998 Consideration	1997 Consideration	1996 Consideration
Issued, beginning of year	\$1,211,049	\$ 630,484	\$627,700
Shares issued under option	15,414	5,826	2,634
Shares issued to purchase Arcadian Corporation	–	573,278	–
Shares issued for dividend reinvestment plan	1,136	1,461	150
Issued, end of year	\$1,227,599	\$1,211,049	\$630,484

17. Segmented Information

The Company has three reportable business segments: potash, phosphate and nitrogen. All three segments produce fertilizers for sale to agricultural customers. In addition, approximately 44 percent of nitrogen and 36 percent of phosphate net sales revenue is from non-fertilizer products. These business segments are differentiated by the chemical nutrient contained in the product that each produces with the exception of phosphate products produced at Geismar, which are included in the nitrogen business segment. Inter-segment net sales are made under terms which approximate market value. Each of the phosphate and nitrogen business segments was acquired as a unit.

	1998				
	Potash	Phosphate	Nitrogen	All others	Consolidated
Net sales – third party	\$ 545,491	\$ 914,197	\$ 848,075	\$ –	\$2,307,763
Inter-segment net sales	10,342	1,318	66,704	–	–
Gross margin	322,613	210,626	83,027	(6,919)	609,347
Other income	2,101	6,463	10,610	13,635	32,809
Depreciation and amortization	36,242	59,084	86,708	8,846	190,880
Operating income	237,615	207,756	61,077	(60,392)	446,056
Assets	1,037,328	1,359,288	1,931,326	206,315	4,534,257
Expenditures for segment capital assets	43,158	66,958	80,039	–	190,155

16. Share Capital (continued)

Issued:	1998 Number of Common Shares	1997 Number of Common Shares	1996 Number of Common Shares
Issued, beginning of year	53,896,186	45,581,864	45,439,667
Shares issued under option	332,800	267,350	140,050
Shares issued to purchase Arcadian Corporation	–	8,029,092	–
Shares issued for dividend reinvestment plan	14,809	17,880	2,147
Issued, end of year	54,243,795	53,896,186	45,581,864

Stock Options

At December 31, 1998, there were stock options outstanding in respect of 2,947,075 common shares granted to certain employees of the Company and the directors of PCS with an exercise price from CDN\$14.00 to CDN\$121.50 for options held by optionees resident in Canada, and US\$12.00 to US\$86.75 for optionees resident in the United States. As at December 31, 1998, 1,682,325 shares were subject to exercisable options.

The foregoing options have expiry dates ranging from November 30, 1999 to November 5, 2008.

Stock-based Compensation Disclosure

The Company continues with its policy of not recording any compensation expense for the stock options as the exercise price is the quoted market closing price of the Company's common shares on the last trading day immediately preceding the date of the grant.

Shareholder Rights Plan

The Board of Directors of the Company adopted a shareholder rights plan ("the Plan") on November 10, 1994. The Plan was amended by the Board of Directors on March 28, 1995 and May 4, 1995 and approved by the shareholders on May 11, 1995. Under the Plan, the Board of Directors declared a dividend distribution of one right for each common share to holders of record. The rights are not currently exercisable and only become exercisable upon the occurrence of certain events as specified in the Plan. The Plan was renewed in 1998 and now expires following the Company's annual meeting in 2001, unless otherwise renewed or extended.

17. Segmented Information (continued)

	1997				
	Potash	Phosphate	Nitrogen	All others	Consolidated
Net sales – third party	\$ 504,167	\$ 926,490	\$ 895,272	\$ –	\$2,325,929
Inter-segment net sales	9,017	1,460	18,132	–	–
Gross margin	262,237	184,386	143,420	(4,872)	585,171
Other income	6,010	4,863	9,959	11,612	32,444
Depreciation and amortization	39,605	55,102	68,996	6,299	170,002
Operating income	191,857	181,249	125,705	(51,171)	447,640
Assets	1,005,910	1,406,717	1,957,292	57,673	4,427,592
Expenditures for segment capital assets	42,836	47,979	69,522	–	160,337

	1996				
	Potash	Phosphate	Nitrogen	All others	Consolidated
Net sales – third party	\$ 403,196	\$ 891,964	\$ 108,708	\$ –	\$1,403,868
Gross margin	190,655	191,257	2,062	–	383,974
Other income	10,461	5,396	–	–	15,857
Depreciation and amortization	38,472	51,653	–	–	90,125
Operating income	137,762	182,142	2,062	(22,474)	299,492
Assets	1,005,220	1,447,173	–	41,994	2,494,387
Expenditures for segment capital assets	28,306	30,633	–	–	58,939

Financial information by geographic area is summarized in the following table:

	Canada	United States	Trinidad	Consolidated
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1998

Net sales to customers outside the Company				
Canada	\$ 21,885	\$ 29,808	\$ –	\$ 51,693
United States	199,956	1,279,615	110,112	1,589,683
PhosChem	–	262,168	–	262,168
Canpotex	252,464	–	–	252,464
Other	65,441	35,237	51,077	151,755
	\$ 539,746	\$1,606,828	\$161,189	\$2,307,763
Operating income	\$ 209,783	\$ 220,221	\$ 16,052	\$ 446,056
Capital assets and goodwill	\$ 823,827	\$2,448,587	\$316,025	\$3,588,439

1997

Net sales to customers outside the Company				
Canada	\$ 14,460	\$ 27,147	\$ –	\$ 41,607
United States	188,416	1,334,672	100,466	1,623,554
PhosChem	–	261,502	–	261,502
Canpotex	229,666	–	–	229,666
Other	64,261	35,097	70,242	169,600
	\$ 496,803	\$1,658,418	\$170,708	\$2,325,929
Operating income	\$ 163,620	\$ 257,528	\$ 26,492	\$ 447,640
Capital assets and goodwill	\$ 811,135	\$2,463,546	\$335,745	\$3,610,426

1996

Net sales to customers outside the Company				
Canada	\$ 14,507	\$ 28,225	\$ –	\$ 42,732
United States	136,981	668,385	–	805,366
PhosChem	–	275,644	–	275,644
Canpotex	184,025	–	–	184,025
Other	61,526	34,575	–	96,101
	\$ 397,039	\$1,006,829	\$ –	\$1,403,868
Operating income	\$ 113,317	\$ 186,175	\$ –	\$ 299,492
Capital assets and goodwill	\$ 829,791	\$1,150,587	\$ –	\$1,980,378

18. Provincial Mining and Other Taxes

Provincial mining taxes and other taxes consist of:

	1998	1997	1996
Potash Production Tax	\$61,639	\$53,453	\$27,462
Saskatchewan corporate capital taxes	18,449	16,859	12,735
	\$80,088	\$70,312	\$40,197

19. Interest Expense

	1998	1997	1996
Interest on			
Short-term debt	\$ 2,942	\$ 2,351	\$ 56
Long-term debt	64,632	79,088	46,705
	\$67,574	\$81,439	\$46,761

20. Income Taxes

As the Company operates in a specialized industry and in several tax jurisdictions, its income is subject to various rates of taxation.

The provision for income taxes differs from the amount that would have resulted from applying the Canadian statutory income tax rates to income before income taxes as follows:

	1998	1997	1996
Income before income taxes			
Canada	\$122,490	\$ 67,606	\$ 81,067
United States	243,275	272,520	171,664
Trinidad	12,717	26,075	–
Income before income taxes	\$378,482	\$366,201	\$252,731
Federal and Provincial			
Statutory tax rates	46.12%	46.12%	46.12%
Tax at statutory rates	\$174,556	\$168,892	\$116,560
Adjusted for the effect of:			
Net non-deductible provincial taxes and royalties and resource allowances	19,327	(7,025)	(22,879)
Additional tax deductions	(63,330)	(73,631)	(44,255)
Difference between Canadian rate and rates applicable to subsidiaries in other countries	(14,071)	(24,662)	(10,359)
Other	997	5,489	4,628
Income tax expense	\$117,479	\$ 69,063	\$ 43,695

Details of income tax expense are as follows:

Canada			
– Current	\$ 2,351	\$ 1,024	\$ 3,097
– Deferred	75,405	2,146	–
United States – Federal			
– Current	6,177	31,888	16,861
– Deferred	10,683	25,063	20,651
United States – State			
– Current	4,963	–	–
– Deferred	14,561	(716)	3,086
Trinidad			
– Current	5,808	13,564	–
– Deferred	(2,469)	(3,906)	–
Income tax expense	\$117,479	\$ 69,063	\$ 43,695

The tax effects of temporary differences that give rise to significant portions of the net deferred income tax liability are:

	1998	1997
Deferred income tax assets:		
Loss and credit carryforwards	\$127,653	\$ 91,884
Post-retirement/post-employment benefits	50,161	49,551
Accrued reclamation costs	44,555	49,577
Other	11,312	63,858
Total deferred income tax assets	233,681	254,870
Deferred income tax liabilities:		
Basis difference in fixed assets	628,551	574,673
Other	22,983	18,628
Total deferred income tax liabilities	651,534	593,301
Net deferred income tax liability	\$417,853	\$338,431

At December 31, 1998, the Company has income tax losses carried forward of approximately \$300,210 which will begin to expire in 2010. The benefit relating to these loss carryforwards has been recognized by reducing deferred income tax liabilities. In addition, the Company has alternative minimum tax credits of approximately \$20,359 which carry forward indefinitely.

21. Net Income Per Share (Earnings Per Share)

Net income per share was calculated on the weighted average number of shares issued and outstanding during the twelve months ended December 31, 1998 of 54,177,000 (1997 – 52,275,000; 1996 – 45,537,000). Fully diluted net income per share for the year ended December 31, 1998 was \$4.77 (1997 – \$5.61; 1996 – \$4.53).

22. Financial Instruments and Risk Management

The Company uses financial instruments, including forward exchange contracts, futures, swaps and option agreements to hedge foreign exchange and commodity price risk. The Company does not hold or issue financial instruments for trading purposes.

At December 31, 1998, the Company had no commitments in the form of foreign exchange contracts to sell US dollars (1997 – US\$46,000).

The Company's exposure to interest rate risk is limited to its long-term debt. The effective interest rate on the long-term debt approximates the stated rate because there are no significant premiums or discounts.

In addition to physical spot and term purchases, the Company at times employs futures, swaps and option agreements to establish the cost on a portion of its natural gas requirements. These instruments are intended to hedge the future cost of the committed and anticipated natural gas purchases for its US nitrogen plants. Under these arrangements, the Company receives or makes payments based on the differential between a specified price and the actual spot price of natural gas. The Company has certain available lines of credit which are utilized to reduce cash margin requirements to maintain the derivatives. Cash margin requirements which have been advanced as at December 31, 1998 totalled \$16,199 (1997 – \$11,158) and are included in inventory.

As at December 31, 1998, the Company had derivatives qualifying for deferral in the form of futures and swaps. The futures represented a notional amount of 33.1 million MMBtus with maturities in 1999 through 2001. The swaps represented a notional amount of 107.3 million MMBtus with maturities in 1999 through 2003. As at December 31, 1998, net losses arising from settled hedging transactions which are included as a component of finished goods inventory were not material.

The Company is exposed to credit related losses in the event of non-performance by counterparties to derivative financial instruments. The Company anticipates, however, that counterparties will be able to fully satisfy their obligations under the contracts.

The major concentration of credit risk arises from the Company's receivables. A majority of the Company's sales are in North America and are primarily for use in the agricultural industry. The Company seeks to manage the credit risk relating to these sales through a credit management program. Internationally, the Company's products are sold primarily through two export associations whose accounts receivable are either insured or secured by letters of credit.

The carrying amount of the Company's cash and cash equivalents, accounts receivable, short-term debt and accounts payable and accrued charges approximate fair values because of short-term maturities. The carrying amount of the Company's long-term debt (except the Notes Payable whose approximate fair value at December 31, 1998 was \$419,000) approximates estimated fair value because the stated interest rates approximate the market rate.

23. Contingencies

General

PCS is a shareholder in Canpotex which markets potash offshore. Should any operating losses or other liabilities be incurred by Canpotex, the shareholders have contractually agreed to reimburse Canpotex for such losses or liabilities in proportion to their productive capacity. There were no such operating losses or other liabilities in 1998.

In common with other companies in the industry, the Company is unable to acquire insurance for underground assets.

In June 1993, the Company was served with a complaint relating to a suit filed in the United States District Court for Minnesota against most North American potash producers, including the Company. The complaint alleged a conspiracy among the defendants to fix the price of potash purchased by the plaintiffs as well as potash purchased by the members of a class of certain purchasers proposed by the plaintiffs. The complaint sought treble damages in an unspecified amount and other relief. The Company filed a motion for summary judgment on December 22, 1995. On January 2, 1997, Judge Richard H. Kyle issued an order granting the defendants' motions for summary judgment and dismissing the lawsuit. The plaintiffs appealed that order to the United States Court of Appeals for the Eighth Circuit on January 31, 1997. Oral arguments were heard on November 17, 1997.

Additional complaints were filed in the California and Illinois State Courts on behalf of purported classes of indirect purchasers of potash in those states. The parties in the California lawsuit have agreed to stay proceedings pending the outcome of the appeal to the United States Court of Appeals for the Eighth Circuit. The Illinois State Court complaint has been dismissed for failure to state a cause of action.

On May 7, 1997, J. Douglas Campbell, Alfred L. Williams, Peter H. Kesser and David L. Alyea, former officers of Arcadian Corporation, filed lawsuits against PCS in the United States District Court for the Western District of Tennessee. The complaints allege that PCS breached employment agreements between Arcadian and the officers and breached the related assumption agreement among PCS, PCS Nitrogen and Arcadian. The complaints of Mr. Campbell, Mr. Williams, Mr. Kesser and Mr. Alyea seek damages in excess of \$22.2 million, \$6.2 million, \$3.7 million and \$4.2 million, respectively. In addition, on October 14, 1997, Charles Lance, a former officer of Arcadian Corporation, filed a lawsuit in the same court against PCS also alleging breaches of his employment agreement and the related assumption agreement. Mr. Lance seeks damages in an amount exceeding \$3.0 million. Each complaint also seeks certain additional unspecified damages. Trial with respect to the claims of Mr. Campbell, Mr. Williams and Mr. Kesser commenced on August 17, 1998 and concluded on August 25, 1998. On December 1, 1998, the court entered judgments in the amounts of \$12.7 million, \$3.2 million and \$2.6 million in the favor of Mr. Campbell, Mr. Williams and Mr. Kesser, respectively, subject to pending applications for attorneys' fees or additional amounts to compensate the Arcadian executives for the impact of certain excise taxes, if applicable. The Company has filed Notices of Appeal with respect to these judgments. The Company has settled the claim of Mr. Alyea for \$0.7 million and attorneys' fees (subject to the application for fees) and the claim of Mr. Lance for the total amount of \$0.6 million. Management of the Company, having consulted with legal counsel, believes that the lawsuits will not have a material adverse effect on the Company's financial condition or results of operations.

On March 13, 1996, PCS Nitrogen, two other nitrogen producers and up to thirty unidentified parties were named as defendants in a lawsuit filed in the name of the Port Authority of New York and New Jersey (the "Port Authority") in New Jersey State Court. The lawsuit was actually filed by the attorneys hired by the Port Authority's subrogated insurance carriers. The Port Authority's insurers are seeking to recover damages allegedly incurred as a result of the explosion at the World Trade Center in New York City on February 26, 1993.

23. Contingencies (continued)

On February 7, 1997, the defendants filed a motion to dismiss the suit for failure to state a claim upon which relief could be granted. On December 19, 1997, that motion was granted and the complaint was dismissed with prejudice. On January 15, 1998, the Port Authority appealed the dismissal to the United States Court of Appeals for the Third Circuit. The case was briefed and oral argument was heard on September 17, 1998. Although neither the Port Authority nor its subrogated insurers have alleged or otherwise revealed the amount of damages sought from PCS Nitrogen in the lawsuit, the Port Authority stated in an affidavit submitted to the court in support of its motion to disqualify its insurers' counsel that as of April 9, 1996, the Port Authority had submitted to its insurers claims relating to the explosion totalling approximately \$340 million of which the insurers had paid approximately \$160 million. PCS Nitrogen is unaware of any basis for any liability and intends to continue to vigorously defend the lawsuit.

Various other claims and lawsuits are pending against the Company. While it is not possible to determine the ultimate outcome of such actions at this time, it is management's opinion that the ultimate resolution of such items, including those pertaining to environmental matters, will not have a material effect on the Company's financial condition or results of operations.

Uncertainty due to the Year 2000 Issue

The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect the Company's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the Company, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

24. Related Party Transactions

The Company has a one-third interest in Canpotex which markets potash offshore. Sales to Canpotex are at prevailing market prices. Sales for the year ended December 31, 1998 were \$252,464 (1997 – \$229,666; 1996 – \$184,025).

Account balances resulting from the Canpotex transactions are included in the Consolidated Statements of Financial Position and settled on normal trade terms.

25. Quarterly Results (unaudited)

The following quarterly information in management's opinion includes all adjustments (consisting solely of normal recurring adjustments) necessary for fair presentation.

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
1998				
Net sales	\$583,812	\$660,442	\$521,368	\$542,141
Gross Margin	\$150,673	\$186,631	\$140,188	\$131,855
Operating Income	\$109,790	\$146,909	\$ 95,575	\$ 93,782
Net Income	\$ 63,009	\$ 89,117	\$ 54,704	\$ 54,173
Net Income per Share	\$ 1.17	\$ 1.64	\$ 1.01	\$ 1.00
1997				
Net sales	\$464,834	\$676,648	\$573,773	\$610,674
Gross Margin	\$115,027	\$184,152	\$149,466	\$136,526
Operating Income	\$ 90,513	\$154,714	\$108,851	\$ 93,562
Net Income	\$ 56,365	\$ 96,980	\$ 71,418	\$ 72,375
Net Income per Share	\$ 1.18	\$ 1.81	\$ 1.33	\$ 1.35

25. Quarterly Results (unaudited) (continued)

Net Income per Share for each quarter has been computed based on the weighted average number of shares issued and outstanding during the respective quarter; therefore, quarterly amounts may not add to the annual total.

26. Comparative Figures

Certain of the prior years' figures have been reclassified to conform with the current year's presentation.

27. United States Generally Accepted Accounting Principles

A description of certain significant differences between Canadian GAAP and US GAAP follows:

Marketable securities: The Company's investment in Israel Chemicals Ltd. ("ICL") is stated at cost. US GAAP would require that this investment be classified as available-for-sale and be stated at market value.

Foreign currency translation adjustment: The foreign currency translation adjustment results from the restatement of prior periods so that all periods presented are in the same reporting currency. US GAAP requires that the comparative Consolidated Statements of Income and the Consolidated Statements of Cash Flow be translated using weighted average exchange rates for the applicable periods. In contrast, the Consolidated Statements of Financial Position are translated using the exchange rates at the end of the applicable periods in accordance with Canadian GAAP. The difference in these exchange rates is what gives rise to the foreign currency translation adjustment.

Net sales: Sales are recorded net of freight costs (less related revenues) and transportation and distribution expenses. US GAAP would require that net freight costs be included in cost of sales and transportation and distribution expenses be reported as an operating expense.

Non-cash financing and investing activities: Non-cash financing and investing activities are included in the statement of cash flow. US GAAP requires that non-cash financing and investing activities be disclosed supplementally rather than being included in the statement of cash flow.

Comprehensive income: Comprehensive income is not recognized under Canadian GAAP. US GAAP would require the recognition of comprehensive income.

In 1995, the Financial Accounting Standards Board issued SFAS No. 123 "Accounting for Stock-Based Compensation". The Company has decided to continue to apply APB Opinion 25 ("APB 25") for measurement of compensation of employees.

The application of US GAAP, as described above, would have had the following approximate effects on net income, net income per share, total assets and shareholders' equity:

	1998	1997	1996
Net income as reported	\$ 261,003	\$ 297,138	\$ 209,036
Item decreasing reported net income			
Deferred income taxes	-	(11,382)	(7,216)
Approximate net income – US GAAP	\$ 261,003	\$ 285,756	\$ 201,820
Approximate net income per share – US GAAP	\$ 4.82	\$ 5.47	\$ 4.43
Total assets as reported	\$4,534,257	\$4,427,592	\$2,494,387
Items increasing reported total assets			
Deferred income tax asset	-	-	15,727
Available-for-sale security (unrealized holding gain)	14,906	-	-
Approximate total assets – US GAAP	\$4,549,163	\$4,427,592	\$2,510,114
Shareholders' equity as reported	\$2,453,761	\$2,227,891	\$1,405,496
Items increasing reported shareholders' equity			
Deferred income taxes	-	-	11,382
Other Comprehensive Income	17- 8,944	-	-
Approximate shareholders' equity – US GAAP	\$2,462,705	\$2,227,891	\$1,416,878

Supplemental US GAAP Disclosure

Available-for-Sale Security

The Company's investment in ICL is classified as available-for-sale. The fair market value of this investment at December 31, 1998 was \$107,057 and the unrealized holding gain was \$14,906. *SFAS 115 (Item 17)*

New Accounting Pronouncements

In February 1998, the Financial Accounting Standards Board issued SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits", which was effective for the Company's 1998 fiscal year. Adoption of this standard did not have a material impact on the Company's consolidated financial statements. In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", which will be effective for the Company's 2000 fiscal year. The impact on the Company's consolidated financial statements of the adoption of this standard is not presently determinable.

Stock Compensation Plans

The Company has two stock-based compensation plans which are described below. The Company applies APB Opinion 25 and related interpretations in accounting for its plans. No compensation cost has been recognized under APB 25 as the exercise price of the options at the grant date is equal to the market value of the shares at the grant date. Had compensation cost for the Company's plans been determined based on the fair value at the grant dates for awards under the plans consistent with the method of SFAS No. 123, the Company's net income and net income per share for the years ending December 31, 1998, 1997 and 1996 would have been reduced to the pro forma amounts indicated as follows:

27. United States Generally Accepted Accounting Principles (continued)

	1998		1997		1996	
	As Reported	Pro Forma	As Reported	Pro Forma	As Reported	Pro Forma
Net income	\$261,003	\$239,667	\$285,756	\$271,497	\$201,820	\$191,936
Net income per share	\$ 4.82	\$ 4.42	\$ 5.47	\$ 5.19	\$ 4.43	\$ 4.21

In calculating the foregoing pro forma amounts, the fair value of each option grant was estimated as of the date of grant using the Modified Black-Scholes option-pricing model with the following weighted average assumptions:

	1998	1997	1996
Expected dividend	\$0.92	\$1.03	\$1.06
Expected volatility	30%	26%	32%
Risk-free interest rate	4.83%	5.80%	6.90%
Expected life of option	10 years	10 years	10 years
Expected forfeitures	26%	26%	25%

The Company has two option plans. Under the Officers and Key Employee Plans, the Company may, after February 3, 1998, issue up to 6,926,125 common shares pursuant to the exercise of options. Under the Directors Plan, the Company may, after January 24, 1995, issue up to 456,000 common shares pursuant to the exercise of options. Under both plans, the exercise price of each option equals the closing market price of the Company's shares on the trading day prior to the grant and an option's maximum term is ten years. All options granted to date have provided that one-half of the options granted in a year will vest one year from the date of the grant, with the other half of the options vesting the following year.

A summary of the status of the plans as of December 31, 1998, 1997 and 1996 and changes during the years ending on those dates is presented below:

Number of Shares Subject to Option

	1998	1997	1996
Outstanding, beginning of year	2,461,125	1,845,475	1,395,525
Granted	824,000	889,750	592,000
Exercised	(332,800)	(267,350)	(140,050)
Cancelled	(5,250)	(6,750)	(2,000)
Outstanding, end of year	2,947,075	2,461,125	1,845,475

Weighted Average Exercise Price

	1998	1997	1996
Outstanding, beginning of year	\$68.11	\$52.90	\$34.74
Granted	67.88	86.11	71.00
Exercised	47.45	23.12	20.95
Cancelled	82.61	78.44	74.75
Outstanding, end of year	70.35	68.11	52.90

The weighted-average grant-date fair value of options granted during the year was \$18,665 (1997 – \$23,712; 1996 – \$14,206). The following table summarizes information about stock options outstanding at December 31, 1998:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Remaining Life	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
\$12.00 to \$18.38	18,000	2 years	\$15.84	18,000	\$15.84
\$20.00 to \$25.38	129,350	5 years	21.96	129,350	21.96
\$32.25	176,650	6 years	32.25	176,650	32.25
\$67.88	824,000	10 years	67.88	—	—
\$70.38 to \$74.75	917,575	8 years	72.43	917,575	72.43
\$81.75 to \$86.75	881,500	9 years	86.34	440,750	86.34

27. United States Generally Accepted Accounting Principles (continued)

The following supplemental schedules present the Consolidated Financial Position, Income and Retained Earnings, Cash Flow and Comprehensive Income in accordance with US GAAP as adjusted for the GAAP differences described in this note.

Supplemental Schedule of Consolidated Financial Position

As at December 31

(in thousands of US dollars)

	1998	1997
Assets		
Current Assets		
Cash and cash equivalents	\$ 67,971	\$ 8,756
Accounts receivable	302,974	351,154
Inventories	364,397	353,425
Prepaid expenses	38,839	21,131
	774,181	734,466
Property, plant and equipment	3,003,443	2,995,625
Goodwill	559,621	574,296
Other assets	211,918	123,205
	\$4,549,163	\$4,427,592
Liabilities		
Current Liabilities		
Short-term debt	\$ 94,940	\$ 101,928
Accounts payable and accrued charges	349,684	348,103
Current portion of long-term debt	386	2,740
	445,010	452,771
Long-term debt	933,294	1,129,964
Deferred income tax liability	423,815	338,431
Accrued post-retirement/post-employment benefits	131,179	123,418
Accrued reclamation costs	129,399	139,105
Other non-current liabilities and deferred credits	23,761	16,012
	2,086,458	2,199,701
Shareholders' Equity		
Share Capital	1,227,599	1,211,049
Contributed Surplus	336,486	336,486
Retained Earnings	910,605	701,285
Foreign Currency Translation Adjustment	(20,929)	(20,929)
Other Comprehensive Income	8,944	—
	2,462,705	2,227,891
	\$4,549,163	\$4,427,592

Supplemental Schedule of Consolidated Income and Retained Earnings

For the Years Ended December 31

(in thousands of US dollars)

	1998	1997	1996
Net sales	\$2,601,697	\$2,610,346	\$1,552,885
Cost of goods sold	1,914,757	1,963,565	1,119,758
Gross Margin	686,940	646,781	433,127
Selling, distribution and administrative	193,605	161,273	109,295
Provincial mining and other taxes	80,088	70,312	40,197
Other income	(32,809)	(32,444)	(15,857)
	240,884	199,141	133,635
Operating Income	446,056	447,640	299,492
Interest Expense	67,574	81,439	46,761
Income Before Income Taxes	378,482	366,201	252,731
Income Taxes	117,479	80,445	50,911
Net Income	261,003	285,756	201,820
Retained Earnings, Beginning of Year	701,285	470,837	317,216
Dividends	(51,683)	(55,308)	(48,199)
Retained Earnings, End of Year	\$ 910,605	\$ 701,285	\$ 470,837
Net Income Per Share – Basic	\$ 4.82	\$ 5.47	\$ 4.43
Net Income Per Share – Fully Diluted	\$ 4.80	\$ 5.42	\$ 4.39
Dividends Per Share	\$ 0.96	\$ 1.03	\$ 1.06

27. United States Generally Accepted Accounting Principles (continued)

Supplemental Schedule of Consolidated Cash Flow

For the Years Ended December 31
(in thousands of US dollars)

	1998	1997	1996
Operating Activities			
Net income	\$261,003	\$285,756	\$201,820
Items not affecting cash			
Depreciation and amortization	190,880	170,002	90,125
(Gain) loss on disposal of property, plant and equipment	(99)	(4,739)	2,152
Provision for deferred income tax	97,203	45,873	30,953
Provision for post-retirement/post-employment benefits	6,848	6,166	5,890
Changes in non-cash operating working capital			
Accounts receivable	48,751	23,470	(7,400)
Inventories	(7,859)	19,873	2,493
Prepaid expenses	(16,603)	3,736	(1,393)
Accounts payable and accrued charges	(2,477)	(68,623)	(19,214)
Accrued reclamation costs	(7,436)	(7,407)	(5,021)
Other non-current liabilities and deferred credits	7,749	(6,286)	(4,219)
Cash provided by operating activities	577,960	467,821	296,186
Investing Activities			
Additions to property, plant and equipment	(190,155)	(160,337)	(58,939)
Acquisition of Arcadian Corporation	—	(474,985)	—
Proceeds from disposal of property, plant and equipment	31,926	15,276	22,716
Additions to other assets	(85,066)	(22,091)	(2,819)
Cash used in investing activities	(243,295)	(642,137)	(39,042)
Financing Activities			
Proceeds from long-term obligations	143,000	1,210,000	—
Repayment of long-term obligations	(375,429)	(699,979)	(258,556)
Proceeds from short-term debt	215,000	210,000	—
Repayment of short-term debt	(221,988)	(108,072)	—
Repayment of Senior Notes	(900)	(374,526)	—
Dividends	(51,683)	(55,308)	(48,199)
Issuance of shares	16,550	7,287	2,784
Cash (used in) provided by financing activities	(275,450)	189,402	(303,971)
Increase (Decrease) in Cash and Cash Equivalents	59,215	15,086	(46,827)
Cash and Cash Equivalents (Bank Indebtedness), Beginning of Year	8,756	(6,330)	40,497
Cash and Cash Equivalents (Bank Indebtedness), End of Year	\$ 67,971	\$ 8,756	\$ (6,330)

Supplemental Cash Flow Information – 1997

On March 6, 1997, the Company acquired all of the outstanding shares of Arcadian Corporation. The consideration paid included 8,029,092 common shares of the Company valued at \$573,278.

Supplemental Schedule of Consolidated Comprehensive Income

For the Years Ended December 31
(in thousands of US dollars)

	1998	1997	1996
Net income	\$261,003	\$285,756	\$201,820
Other comprehensive income			
Unrealized holding gain on security	14,906	—	—
Deferred income tax expense related to other comprehensive income	(5,962)	—	—
Other comprehensive income, net of tax	8,944	—	—
Comprehensive income	\$269,947	\$285,756	\$201,820

Isabel B. Anderson

Ms. Anderson, President and Chief Executive Officer of A&L Information Brokers, a Calgary-based company, joined the PCS Board in 1989 and is on the executive committee. A longtime

Professor of Economics at the University of Saskatchewan and specialist in international economics and Canadian public policy, she was a Commissioner in 1986 for Saskatchewan's public hearings on the Canada-United States trade negotiations. She has served on the Canadian delegation to the United Nations Conference on Science and Technology and the Canadian NGO delegation to the United Nations Conference on Trade and Development. She focuses on the implications of public policy for the growth and development of the Western Canadian economy.

Douglas J. Bourne

Mr. Bourne, of Houston, Texas, is a director, former Chairman and retired CEO of Battle Mountain Gold Company and, before that, Group Vice President and director

of Pennzoil Company, and Chairman and CEO of Duval Corporation, its mining subsidiary. A past Chairman of the Potash & Phosphate Institute and the Sulphur Institute, and a director of The Fertilizer Institute and the American Mining Congress, he was elected to the PCS Board in 1990 and heads the environmental affairs committee.

Charles E. Childers

Mr. Childers, Chairman and CEO of Potash Corporation of Saskatchewan Inc. and its predecessor company since 1987, joined the Board in 1989 and became Chairman in 1990. He

is Chairman of the executive committee. He is past President of the International Fertilizer Industry Association and past Chairman of the Potash & Phosphate Institute, Canpotex Limited, the Saskatchewan Potash Producers Association and The Fertilizer Institute. He has served on the Fertilizer Industry Advisory Committee to the United Nations Food and Agriculture Organization. He sits on the boards of directors of Battle Mountain Gold Company and the Conference Board of Canada, and formerly served on the boards of QUNO and KAP Resources.

The Honourable Willard Z. Estey, Q.C.

Mr. Estey, of Toronto, Ontario, is a former Chief Justice of Ontario and Justice of the Supreme Court of Canada. He was appointed Queen's Counsel in 1960 and Companion, Order of

Canada, in 1991. A PCS director since 1990, he sits on the audit committee. He is a director of Canwest Global Communications Corporation, CamVec Corporation and Fundy Cable Ltd. He is Chairman of the Ballard Foundation and recently conducted the Grain Handling and Transportation Review for the Government of Canada.

Dallas J. Howe

Mr. Howe, President and CEO of Advanced DataSystems Ltd. and BDM Information Systems Group of Companies, served on the PCS Board from 1982 to 1989 and was reappointed in 1991.

He sits on the audit committee. He has been President, CEO and founder of an extensive group of high technology information and data systems companies over twenty years, and is a director of the Saskatoon Regional Economic Development Authority and Saskatoon City Hospital Foundation. He has been appointed to the board of governors of the University of Saskatchewan, and named by Canada's Minister of International Trade to the Minister's Medical and Health Sectoral Advisory Group.

James F. Lardner

Mr. Lardner, of Davenport, Iowa, is a retired Vice President of Deere & Company who was responsible for agricultural tractor design and North American tractor operations. He joined

the PCS Board in 1989 and serves on the executive committee. He is a director of the Sears Manufacturing Company and a former director of the Trane Company and American Standard Inc. Elected to the National Academy of Engineering in 1985, he often serves on bodies which advise United States government agencies and departments on science, technology and engineering policy. He is a consultant on manufacturing strategy and management, and manufacturing and information technology.

Daryl K. Seaman

Mr. Seaman, Chairman and President of Dox Investments Inc. in Calgary, Alberta, joined the PCS Board of Directors in 1989 and is a member of the compensation committee. Former

Chairman and CEO of Bow Valley Industries Ltd., he is a director of Tetonka Drilling Inc., Encal Energy Ltd., Renaissance Energy Ltd., Far West Mining Ltd., Alberta Basic Industries Corporation, Canadian Chemical Reclaiming Ltd. and Bow Valley Energy Ltd. He is co-owner and director of the Calgary Flames Hockey Club.

E. Robert Stromberg, Q.C.

Mr. Stromberg, a Partner in the Saskatchewan law firm Robertson Stromberg, was elected to the PCS Board in 1991 and serves on the executive committee. Admitted to the Saskatchewan

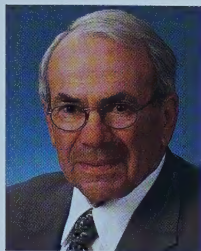
Bar in 1969 and appointed Queen's Counsel in 1984, he is a member of the Law Society of Saskatchewan and the Saskatoon Bar Association. He serves on the advisory board for the Centre for International Business Studies, is Chairman of the Saskatoon Airport Authority, a director of NorSask Forest Products Inc. and Hitachi Canadian Industries Ltd., and a director and past President of Saskatchewan Place.

Jack G. Vicq

Mr. Vicq is a Professor of Accounting at the College of Commerce, University of Saskatchewan. Until June 30, 1998, he was Associate Dean of the College and responsible for the

Centre for International Business Studies. A member of the PCS Board since 1989, he heads the audit committee. He sits on committees of the Saskatchewan and Canadian Institutes of Chartered Accountants and has worked for the Saskatchewan and Canadian governments in areas of policy, finance and taxation.

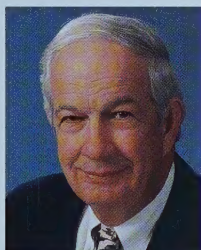
Denis J. Coté



Mr. Coté retired as Chairman and CEO of the UMA Group Ltd. in 1991. In 1993, he was President, Chief Executive Officer and member of the board of Reclamation Management Ltd. in

Vancouver, British Columbia. He has served on the PCS Board since 1989, sits on the executive committee and heads the compensation committee. Former Chairman and director of Joss Energy Ltd., he is a director of the successor company, Startech Energy Inc., and chairs its compensation committee. He is a founder and Chairman of Inter West Energy Corporation, which merged with New Cache Resources in 1997, and a member of the board of the Vancouver Port Corporation. From 1975 to 1981, he served on the board of governors of the University of Calgary.

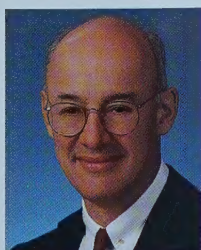
Donald E. Phillips



Mr. Phillips, of Brandon, Mississippi, former President and CEO of Pitman-Moore Inc., joined the PCS Board in 1991 and serves on the compensation committee. A director of Great Lakes REIT

Inc., Oak Brook, Illinois, he is Chairman of the board of directors of Synbiotics Inc., San Diego, California. He is President of Holmes Community College Development Foundation, Goodman, Mississippi, a regent of Bethel College and Seminary in St. Paul, Minnesota, a trustee of Mississippi College, Clinton, Mississippi, and former Chairman of the board of Lake Forest Graduate School of Business, Lake Forest, Illinois.

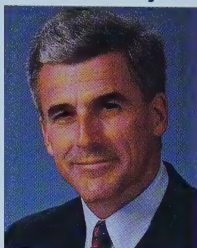
Barrie A. Wigmore



Mr. Wigmore, a Limited Partner with New York investment banking firm Goldman, Sachs Group, L.P., headed its corporate finance activities in the electric, gas, pipelines and telecommunications

industries. He joined the PCS Board in 1989 and sits on the compensation committee. He writes on financial history and current financial markets and is Chairman of the American Friends of Worcester College (Oxford University) and a director of National Service Industries Inc.

William J. Doyle



Mr. Doyle, President and Chief Operating Officer of Potash Corporation of Saskatchewan Inc., has served on the PCS Board since 1989. He became President of PCS Sales in 1987 and

prior to that was International Vice President of International Minerals and Chemical Corporation. He is past Chairman of Canpotex Limited and continues to serve on its board. He is vice-chairman of the Potash & Phosphate Institute, and serves on the boards of Fersan S.A. in the Dominican Republic and the Foundation for Agronomic Research. He chairs the International Fertilizer Industry Association's Potash Committee.

Paul J. Schoenhals



Mr. Schoenhals, President of Petroleum Industry Training Service in Calgary, Alberta, was Chairman of Potash Corporation of Saskatchewan from 1987 to 1989. He rejoined the Board in

1992, and sits on the environmental affairs committee. A former Member of the Legislative Assembly and Cabinet Minister in Saskatchewan, he is on the boards of Upton Resources Inc. and Petroleum Industry Training Service. He has been a director of Precambrian Shield Resources and Sabre West Oil & Gas and on the national advisory board for Marsh & McLennan. He sits on the national advisory committee for Bayer Care Canada.

Paul S. Wise



Mr. Wise, of Carefree, Arizona, a past President and CEO of the Alliance of American Insurers and a member of the PCS Board since 1989, currently sits on the environmental affairs

committee. He is a director emeritus of the boards of United Funds, Waddell & Reed Funds and TMK/United Funds. He has been on the boards of the College of Insurance, the Institute of Civil Justice at the Rand Corporation, the Insurance Hall of Fame, the National Safety Council and Senior Net. He was President of the Property Loss Research Bureau and a director of the Insurance Institute for Highway Safety.

Committees

Executive Committee:

The executive committee is composed of five directors. Between meetings of the Board it has, with certain exceptions, all the powers vested in the Board. In addition, the executive committee nominates candidates for directorship of the Corporation. It also has responsibility for corporate governance issues.

Audit Committee:

The audit committee is composed of three directors, none of whom may be an officer or employee of the Corporation or any of its affiliates. The committee meets with the Corporation's financial management personnel, internal auditor and external auditor at least once each quarter to review the Corporation's financial reporting practices and procedures and authorize the release of unaudited quarterly financial statements, and reviews the Corporation's annual financial statements prior to their submission to the Board for approval. The committee also recommends to the Board the external auditors to be proposed to the shareholders for appointment at the annual meeting.

Compensation Committee:

The compensation committee is composed of four non-employee directors. This committee formulates and makes recommendations to the Board in respect of compensation issues relating to directors and senior management of the Corporation and in respect of corporate salary and benefits policy. It reviews and approves, on an annual basis, the Corporation's salary administration program. It is responsible for the annual report on executive compensation. The committee, in consultation with the Chief Executive Officer, considers and reports to the Board regarding corporate succession matters.

Environmental Affairs Committee:

The environmental affairs committee is composed of three directors. The committee works to ensure that the Corporation's commitment to the protection of the environment is fulfilled. It routinely receives environmental audit reports for review and discussion with senior management and monitors environmental issues in other areas of corporate activity such as off-site transportation, distribution and storage of product. The committee reviews and discusses with management potential changes to regulatory requirements and to corporate environmental policy.

Annual Meeting

The Annual Shareholders Meeting will be held at 10.30 a.m. Central Standard Time May 6, 1999 in the Commonwealth Ballroom, Ramada Hotel, First Avenue and 22nd Street East, Saskatoon, Saskatchewan.

Holders of common shares as of March 18, 1999 are entitled to vote at the meeting and are encouraged to participate. Shareholders who cannot attend are urged to return their proxies promptly to ensure their shares will be voted.

Dividends

Dividend amounts paid to shareholders resident in the United States were adjusted by the exchange rate applicable on the dividend record date. Dividends are normally paid in February, May, August and November, with record dates normally set approximately three weeks earlier.

Future cash dividends will be paid out of, and conditioned upon, the Company's available earnings. Shareholders who wish to have their dividends deposited directly in their bank accounts should contact the transfer agent and registrar, CIBC Mellon Trust.

Dividend Reinvestment Policy

Registered shareholders can have dividends reinvested in newly-issued common shares of PCS at prevailing market rates.

Information for Shareholders Outside Canada

Dividends paid to residents in countries with which Canada has bilateral tax treaties are generally subject to the 15-percent Canadian non-resident withholding tax. There

is no Canadian tax on gains from the sale of shares or debt instruments owned by non-residents not carrying on business in Canada. No government in Canada levies estate taxes or succession duties.

Investor Inquiries

Shareholders with inquiries can contact Betty-Ann Heggie, Senior Vice President, Corporate Relations by toll-free lines.

Within Canada: (800) 667-0403
Within the US: (800) 667-3930
Website: www.potashcorp.com

Interim Reports, News Releases and Form 10-K

Non-registered shareholders who would like to receive quarterly reports should contact the Company's Corporate Relations department. News releases are available via fax.

Copies of the Company's most recent Form 10-K are available upon request.

Duplicate Mailings

Multiple copies of the annual and quarterly reports may be received by shareholders who own shares in more than one account or several shareholders living at the same address. To eliminate multiple mailings, contact CIBC Mellon Trust.

Shares Listed (POT)

Toronto Stock Exchange
Montreal Exchange
New York Stock Exchange

Ownership

On March 2, 1999, there were 2,880 holders of record of the Company's common shares.

Common Share Transfer Agent

In Canada:
CIBC Mellon Trust Company
1080 - 2002 Victoria Avenue
Regina, Saskatchewan S4P 0R7
Phone: (306) 751-7550
(800) 387-0825
Website: www.cibcmellon.ca

Inquiries about shareholdings, share transfer requirements, address changes or lost certificates should be directed to CIBC Mellon Trust or to the Corporate Secretary, PCS, Suite 500, 122 First Avenue South, Saskatoon, Saskatchewan S7K 7G3.

In the United States:
ChaseMellon
Shareholder Services, L.L.C.
85 Challenger Road
Overpeck Center
Ridgefield Park, New Jersey 07660
Phone: (800) 526-0801
Website: www.chasemellon.com

Exchange Rate of the Canadian Dollar

In this report, unless otherwise specified, all dollar amounts are expressed in US dollars (US\$). The Government of Canada permits a floating exchange rate to determine the value of the Canadian dollar (CDN\$) against the US dollar. The exchange rate at the end of each of the five most recent years ended December 31, and the average, the high and the low exchange rates for each of such five years, were as follows (such rates, which are expressed in US dollars, being the noon buying rates in Canada for cable transfers in Canadian dollars by the Bank of Canada):

Years Ended December 31	1998	1997	1996	1995	1994
At end of period	.6534	.6997	.7301	.7325	.7129
Average for period (1)	.6743	.7198	.7330	.7307	.7301
High for period	.7105	.7495	.7527	.7534	.7644
Low for period	.6343	.6945	.7212	.7009	.7098

(1) Based on the average of the exchange rates on the last business day of each month during the period. The noon buying rate in New York City for cable transfers in Canadian dollars as certified by the Bank of Canada on March 2, 1999 was US\$1.00 = CDN\$1.5200 (equivalent to CDN\$1.00 = US\$0.6579).



Common Share Prices and Volumes

The following table sets forth the high and low prices, as well as the volumes, of the Company's common shares as traded on the Toronto Stock Exchange, Montreal Exchange and New York Stock Exchange (composite transactions) on a quarterly basis. Potash Corporation of Saskatchewan Inc. is on the S&P/TSE 60 index and the TSE 100.

	Toronto Stock Exchange ¹			Montreal Exchange ¹			New York Stock Exchange		
	High	Low	Volume	High	Low	Volume	High	Low	Volume
1998									
First Quarter	138.200	112.000	5,456,109	137.900	112.000	965,685	97.188	78.500	13,056,600
Second Quarter	132.000	108.500	3,618,117	131.950	108.800	551,271	92.938	73.250	7,033,200
Third Quarter	114.700	75.000	5,090,801	115.000	75.000	1,195,571	77.375	48.375	11,262,400
Fourth Quarter	109.000	75.000	4,021,223	108.500	77.750	505,572	70.875	50.563	12,011,600
Year 1998	138.200	75.000	18,186,250	137.900	75.000	3,218,099	97.188	48.375	43,363,800
1997									
First Quarter	122.700	98.650	3,212,708	122.100	99.000	210,444	89.875	71.500	17,412,400
Second Quarter	117.000	99.850	2,986,406	116.800	100.300	230,607	85.000	71.000	15,201,200
Third Quarter	111.500	98.500	3,854,717	111.100	99.000	624,684	81.125	71.688	17,970,600
Fourth Quarter	122.200	108.750	8,222,508	121.900	108.950	371,250	87.500	78.000	14,982,100
Year 1997	122.700	98.500	18,276,339	122.100	99.000	1,436,985	89.875	71.000	65,566,300
1996									
First Quarter	110.875	82.000	1,747,948	110.875	82.250	185,062	80.500	60.000	29,504,000
Second Quarter	97.000	83.000	1,893,727	97.700	83.000	115,952	71.875	60.250	19,552,800
Third Quarter	108.500	88.000	1,018,661	108.250	88.700	138,003	79.500	64.125	15,875,700
Fourth Quarter	117.950	91.750	3,983,487	117.850	92.950	616,267	86.875	68.250	19,888,000
Year 1996	117.950	82.000	8,643,823	117.850	82.250	1,055,284	86.875	60.000	84,820,500

¹Trading prices are in CDN\$

Corporate Information

CORPORATE OFFICERS AND KEY MANAGEMENT

POTASH CORPORATION OF SASKATCHEWAN INC.

Charles E. Childers
Chairman and Chief Executive Officer

William J. Doyle
President and Chief Operating Officer

Wayne R. Brownlee
Senior Vice President
Expansion and Development

John Gugulyn
Senior Vice President, Administration

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Senior Vice President, General Counsel
and Secretary

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PCS POTASH

Garth W. Moore
President

PCS PHOSPHATE

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PCS NITROGEN

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Glossaries

OPERATIONAL TERMS

GENERAL

Domestic and export markets

Canada and the United States make up the domestic or North American market; the rest of the world is the export or offshore market.

Mixed fertilizers contain more than one nutrient. A 6-23-30 fertilizer contains 6 percent nitrogen (N), 23 percent phosphoric acid (P₂O₅) and 30 percent potash (K₂O) by weight. The nutrient breakdown, always in the same order, is referred to as NPK in the industry.

Liquid fertilizers come in two types: solutions, in which the plant nutrients are dissolved in solution; and suspensions, saturated solutions in which some plant nutrients are suspended.

Metric tonne equals 2,204.6 pounds or 1,000 kilograms, and is 10 percent larger than a 2,000-pound short ton. Most offshore sales are made in metric tonnes and US dollars, F.O.B. Vancouver BC for potash, Morehead City NC for phosphate and Trinidad for nitrogen.

Product tonne is a standard measure of the weights of all types of potash, phosphate and nitrogen products.

Nutrient tonne is a measure of the nutrient weight of potassium, phosphate and nitrogen fertilizers, and consists of K₂O tonnes, P₂O₅ tonnes and N tonnes.

POTASH

Potassium (K) is the seventh most common element in the earth's crust. It is usually found combined with chlorine in the chemical compound potassium chloride.

Potash typically denotes materials containing potassium, particularly potassium fertilizer. Most fertilizer is muriate of potash (KCl), potassium chloride. Potassium combines with other minerals in specialty fertilizers.

Potash ore consists typically of KCl, NaCl and other minerals. The KCl becomes the product stream and is separated from the tailings stream of NaCl and other minerals. Processing 100 tonnes of ore typically produces 28 to 38 tonnes of product.

K₂O is potassium oxide, a term used in the fertilizer industry to define potassium content.

K₂O tonne is a term which measures the potassium content of fertilizers having different chemical analyses.

PHOSPHATE

Phosphorus (P) is widely distributed in nature in combination with other elements. It is most commonly found in phosphate ore, the only economic source of phosphorus for producing phosphate fertilizers and phosphate chemicals.

P₂O₅ is phosphorus pentoxide, a term used to express phosphorus content of ore or products.

P₂O₅ tonne is a term which measures the phosphorus content of fertilizers with different chemical analyses.

Phosphate rock is the main source of phosphoric acid for phosphate fertilizers and industrial products. A form of calcium phosphate, it also contains other materials.

MGA, merchant grade acid (54 percent P₂O₅) available in amber or green form, is primarily used to make DAP.

DAP, diammonium phosphate (46 percent P₂O₅), is the major solid phosphate fertilizer. An important domestic and export product, it is applied directly or in fertilizer blends.

MAMP, monoammonium phosphate (52 percent P₂O₅), is a solid fertilizer.

SPA, superphosphoric acid (70 percent P₂O₅), is used in manufacturing liquid fertilizers and animal feed supplements. PCS LoMag is superphosphoric acid produced by evaporating MGA to remove water and filtering to remove impurities.

Animal and poultry feed supplements blend phosphorus and calcium. Dical (dicalcium phosphate, 18.5 percent phosphorus) and Monoal (monocalcium phosphate, 21 percent phosphorus) are used primarily for swine and cattle; DFP or defluorinated phosphate (tricalcium phosphate, 18 percent phosphorus) primarily for poultry.

NITROGEN

Nitrogen (N) is a gas which makes up four-fifths of the atmosphere. Essential for plant growth, it is present in chlorophyll and protein. Some plants can obtain nitrogen from the atmosphere, but most get it from soil solutions. Its nutritional value is consumed during each growing season so it must be applied to soil annually.

N tonne is a term which measures the nitrogen content of fertilizers having differing chemical analyses.

Ammonia is produced primarily from natural gas and atmospheric nitrogen as the first step in nitrogen fertilizer production. It can also be applied directly to soils. Anhydrous ammonia (NH₃) is a gas with 82 percent N. Ammonia is condensed by pressure and cooling, and stored and transported in this liquid form.

Nitric acid is produced in solutions of varying strengths by reacting ammonia with atmospheric oxygen. It is used to produce ammonium nitrate and as an intermediate for industrial purposes.

Ammonium nitrate (34 percent nitrogen) is water soluble and used as a solid fertilizer, as a liquid in nitrogen solutions and in industrial applications. It is produced by reacting ammonia with nitric acid.

Nitrogen solutions (UAN solutions) are produced by blending ammonium nitrate solutions with urea solution. Varying in nitrogen content (28-32 percent), these non-pressure solutions are used principally for direct application on soils and for manufacturing starter fertilizers.

Urea (46 percent nitrogen), the most commonly produced and widely traded nitrogen product, is manufactured by reacting ammonia with carbon dioxide under high pressure. It is used as fertilizer and as a feedstock for industrial and feed purposes.

FINANCIAL TERMS

Asset turnover = sales ÷ total assets measures the efficiency of using assets to produce sales.

Current ratio = current assets ÷ current liabilities measures the ability to pay short-term debt obligations.

Long-term debt to equity = long-term debt ÷ shareholders' equity measures the proportion of creditor to shareholder financing.

Net income per share = earnings available to common shares ÷ weighted average number of common shares outstanding measures the normalized earnings generated for each common share.

Quick ratio = cash + cash equivalents + net receivables ÷ current liabilities measures the ability to meet immediate demands of creditors.

Return on investment = net income plus interest expense ÷ average invested capital measures the adequacy of return on the total creditor and shareholder capital.

Return on shareholders' equity = net income ÷ shareholders' equity measures the adequacy of return on the owners' investment.

Shareholders' equity to total assets = shareholders' equity ÷ total assets measures the proportion of assets to shareholder financing.

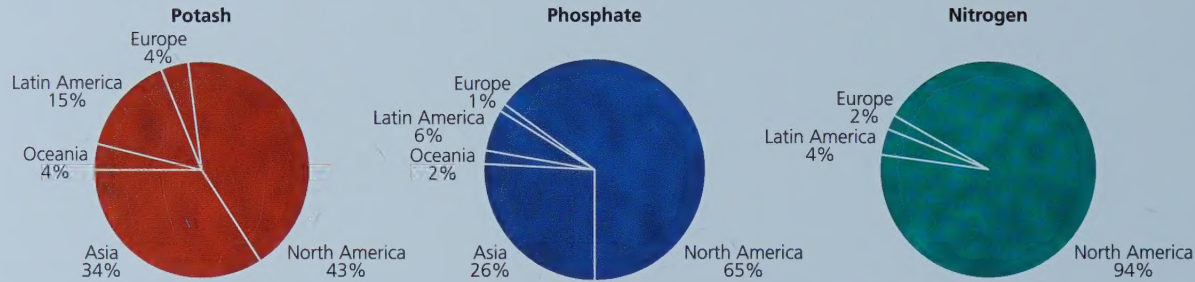
EBITDA represents Earnings (net income) Before Interest, Taxes, Depreciation and Amortization.

Free cash flow is the cash, exclusive of the change in working capital, which is provided by operations less disbursements for sustaining capital, capitalized turnarounds and dividends.



It is the policy of PCS to manage its operations responsibly in order to safeguard those natural resources related to or affected by its activities. In keeping with this policy, the Annual Report uses paper containing at least 10% post-consumer recycled fiber and is recyclable.

PCS SALES VOLUMES BY REGION 1998



PCS is firmly established as a reliable international supplier of the three primary nutrients, selling to a diversified customer group.

